

Reagan Nominee Says SALT Talks Nine Months Off

By Michael Getler Washington Post Service WASHINGTON — Eugene V. Rostow, President Reagan's nominee to head the U.S. Arms Control and Disarmament Agency, has estimated that the administration will not be in a position to enter negotiations with Moscow on reducing strategic nuclear weapons for at least nine months.

Mr. Rostow's comments at his information hearings before the Senate Foreign Relations Committee on Monday provided a new timetable, even though an elimination one, for such talks. The committee chairman, Sen. Charles H. Percy of Illinois, made clear that he felt nine months is too long to wait "for one of the most crucial and critical areas to have to deal with."



SOVIET MEETING — President Leonid I. Brezhnev, bottom row at right, conferring with Premier Nikolai A. Tikhonov on Tuesday at the opening of a two-day session of the Supreme Soviet. In the middle row are Arvid Peltse, head of the party control board, at left, and Mikhail Solomentsev, premier of the Russian Republic. In the top row are Yuri Andropov, head of the KGB security police, and Foreign Minister Andrei Gromyko. Details, Page 2.



French Socialist Party Secretary Lionel Jospin, left, and Georges Marchais, the Communist leader, shaking hands after their discussions on the next Cabinet ended early Tuesday morning.

2d Hard-Line Pro-Soviet Group Emerges Within Party in Poland

By Brian Mooney Reuters WARSAW — A new group of hard-line Communists approved by Moscow emerged in Poland on Tuesday in what appeared to be a stepped-up campaign against the Polish party's reformist majority.

Hard-liners, seeking to reverse or check the reforms since last summer's labor revolt, have found only a small constituency in Poland but they are receiving increasing support from elsewhere in the Soviet bloc.

French Government Names 4 Communists To Ministerial Posts

By Jonathan Kandell International Herald Tribune PARIS — The Socialist government named four Communists to the Cabinet on Tuesday, making France the first major Western country to invite Communists into national office since the reconstruction years immediately following World War II.



PARTY GAINS — Bettino Craxi, the Italian Socialist leader, displays the front page of a newspaper announcing "A Big Advance" for his party in local elections. Page 2.

Bani-Sadr Said to Stay in Iran

By Barry May Reuters TEHRAN — Abolhassan Bani-Sadr, who was dismissed Monday as president of Iran by Ayatollah Ruhollah Khomeini, was still in the country Monday night, the Tehran revolutionary prosecutor said Tuesday.

Hua Reportedly Resigns at Party Meeting

By Michael Parks Los Angeles Times Service PEKING — Communist Party chairman Hua Guofeng has resigned, admitting "serious errors" in leadership, at the start of a meeting of the party's policy-making Central Committee, Chinese sources report.

INSIDE

Envoys Ousted

Zambia expels two senior U.S. diplomats and declares four others, no longer in the country, persona non grata, allegedly for spying. Page 3.

U.S. Tax Bill

The U.S. Senate Finance Committee approves three major provisions of a tax-relief bill, including a cut to 30 percent from 70 percent in the maximum tax rate individuals pay on investment income. Page 3.

Luxembourg

A special supplement on banking and finance in Luxembourg appears on Pages 7S-18S.

Caribbean Aid Plan Faces Test

By Alan Riding New York Times Service MEXICO CITY — Despite the unexpected agreement by President Reagan and President José López Portillo of Mexico in their talks earlier this month to work out a joint economic aid package for the Caribbean basin, the initiative faces formidable political difficulties.



## U.S. Pair in Zambia Get Expulsion Order As Alleged CIA Spies

LUSAKA, Zambia — Two senior U.S. diplomats are being expelled from Zambia on charges of spying for the CIA, and four other Americans no longer in the country have been barred from returning, a spokesman for the Foreign Ministry said.

Michael F. O'Brien, head of the U.S. Embassy's information branch, said in a telephone interview Tuesday that he and John D. Finney, the embassy's first secretary, had been ordered Monday night to leave the country within 48 hours.

The Foreign Ministry spokesman implied that the CIA was plotting to overthrow President Kenneth Kaunda. He said the agency had examined "alternative leadership" to Mr. Kaunda and "looked to" an unidentified senior army officer and Frederick Chiluba, chairman of the Zambian Congress of Trade Unions, as possible replacements.

Meanwhile, reliable sources in Lusaka said Tuesday that Zambian security forces had foiled a second attempt to overthrow the president. The sources said Mr. Kaunda and other officials were to be killed by a South African-backed commando squad. They said the coup attempt was scheduled for last Wednesday.

### Crackdown in South Africa Is Harshest of Both Era

**By Joseph Lelyveld**  
New York Times Service  
JOHANNESBURG — In what amounts to the most severe crackdown by South African security police since Prime Minister Pieter W. Botha took office nearly three years ago, about 30 black trade-union leaders and student activists have been arrested in the past three weeks under security laws permitting detention without trial.

The pattern of the arrests suggested that the security police were looking for evidence that recent black protests have been coordinated. More specifically, the police were thought to be searching for links between legal black organizations and the African National Congress, the oldest black political movement in South Africa, which has been outlawed for 21 years.

The most recent and dramatic arrests, however, involved a smaller, allegedly extremist underground movement called the South African Youth Revolutionary Council, made up of black youths who fled South Africa after student uprisings in 1976 and 1977 in Soweto, the black township near Johannesburg.

### U.K. Police Call Killing of Black A Racial Murder

LONDON — Police say the stabbing to death of a Nigerian-born black by three white youths in London Saturday night was a racial killing. "It would be foolish to believe that this callous, brutal murder was anything other than a racial attack," Detective Chief Superintendent Peter Bradbury said Monday.

The victim was identified Monday as Fenton Isiah Obogbo, 25. He was killed in a fish shop in the Peckham area about an hour after a rampage by 500 mainly black youngsters who attacked, looted and smashed shop windows and looted several shops. Police made 30 arrests.

### 2 Opposition Figures Arrested in Uganda

KAMPALA, Uganda — Two opposition members of Uganda's Parliament have been arrested, one while escorting a truck full of arms and ammunition, Internal Affairs Minister John Lulwiza-Kirunda said.

He told Parliament that Elijah Kitaka-Gawera had been arrested early Monday after an off-duty soldier was killed north of Kampala, and that Yesifi Sabiti had been detained after the truck he was escorting west of Kampala was found to be loaded with machine guns, rocket-propelled grenades, hand grenades and bullets.

Mr. Bradbury said there have been other racial attacks by young whites, including the stabbing of a young black who was hospitalized in serious condition last Thursday.

After a 50-year-old Pakistani was stabbed to death in London three weeks ago, friends said he had been threatened with death by the extreme-right National Front. Two Asians have been killed in Coventry in recent weeks.



West Berlin police carrying a squatter from an occupied house in the district of Zehlendorf on Tuesday. The mansion had been occupied by squatters for about two months.

### 173 Held After Squatter Riots In Frankfurt and West Berlin

BERLIN — Police arrested at least 173 persons after a night of street battles in West Berlin and Frankfurt, authorities said Tuesday. The trouble followed the eviction of squatters from occupied houses in both cities.

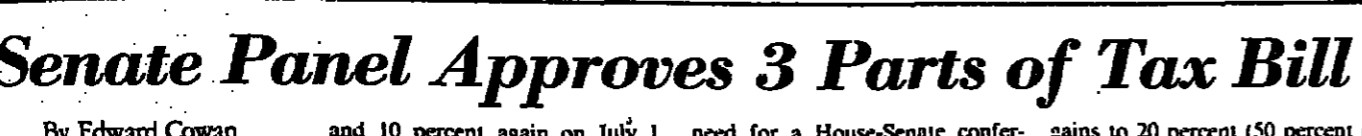
Another 35 young persons were evicted, despite "passive resistance" from two occupied houses in Erlangen, near Nuremberg, late Monday, police there said.

A Frankfurt police spokesman said that about 250 youths had taken to the streets Monday night to protest the eviction of squatters from a neighborhood apartment building. The youths broke windows of 30 businesses and two banks and damaged several parked cars, he said.

One man was arrested after firing a pistol tracer bullet during the ensuing fight with police, the spokesman said, adding that two women had been arrested for vandalism. There were no reports of injuries.

An estimated 12,000 squatters who are protesting the shortage of low-cost housing occupy more than 140 buildings in West Berlin. The city was relatively peaceful in recent months as police stopped most efforts to evict the youths.

### RETURN OF BANZAI BUNNY — When last seen, the "killer rabbit" of Plains, Ga., was swimming away from an ear wielded by Jimmy Carter on a pond near Plains in April, 1979. The former president's tale of being attacked by a huge, hissing bunny — during Easter vacation, yet — caused a splash when aides leaked it. A White House photographer swore he had proof, but Carter aides would not release the photo. The Associated Press obtained a copy of it this week.



WASHINGTON — Without a dissenting vote, the Senate Finance Committee has approved three major provisions of a tax-relief bill, including a cut to 50 percent on 70 percent in the maximum rate that individuals pay on investment income.

Driving hard toward the draft of a complete tax bill this week, ahead of the House Ways and Means Committee, the senators also voted for an easing of inheritance taxes and for the creation of a tax-exempt savings certificate that banks and thrift institutions would be allowed to sell for 2 years.

The Republican chairman of the committee, Sen. Robert J. Dole of Kansas, called the inheritance-tax provision a step toward complete repeal, perhaps within two years. The committee's actions Monday followed its approval last week of the administration's proposal: income tax cuts for individuals of 5 percent on Oct. 1, 11, 10 percent on July 1, 1982,

and 10 percent again on July 1, 1983. Democrats on the House Ways and Means Committee have rejected the 1983 cut, and last week they adopted business tax-relief provisions markedly different from those proposed by the White House, which are likely to be adopted by the Finance Committee.

Sen. Dole has said that he hopes to finish drafting a tax bill by Thursday. The Senate Republican leader, Howard H. Baker Jr. of Tennessee, has hinted that the Senate might delay custom and vote on the Finance Committee bill before the House votes on its own tax measure.

### Senate Panel Approves 3 Parts of Tax Bill

**By Edward Cowan**  
New York Times Service

WASHINGTON — Without a dissenting vote, the Senate Finance Committee has approved three major provisions of a tax-relief bill, including a cut to 50 percent on 70 percent in the maximum rate that individuals pay on investment income.

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### Begin Reportedly Asserts U.S. Gave Him Document on Concern Over Iraq's Plans

**By David K. Shipler**  
New York Times Service  
JERUSALEM — Prime Minister Yitzhak Rabin is reported to have told an Israeli parliamentary committee that the United States provided him with a document raising American concern that Iraq was planning to use its nuclear reactor to manufacture nuclear weapons.

The document, based on U.S. intelligence reports, was given to Begin in January by the U.S. ambassador to Israel, Samuel W. Lewis, according to an informed Israeli official.

In Washington, a State Department official said that information about the Iraqi nuclear program had been exchanged at various times between Israel and other Middle Eastern countries, but the official did not comment on the report Mr. Lewis had given Mr. Begin. A document expressing concern at Iraq's intentions.

### Iranian Spotlight Moves to Party Leader Beheshti

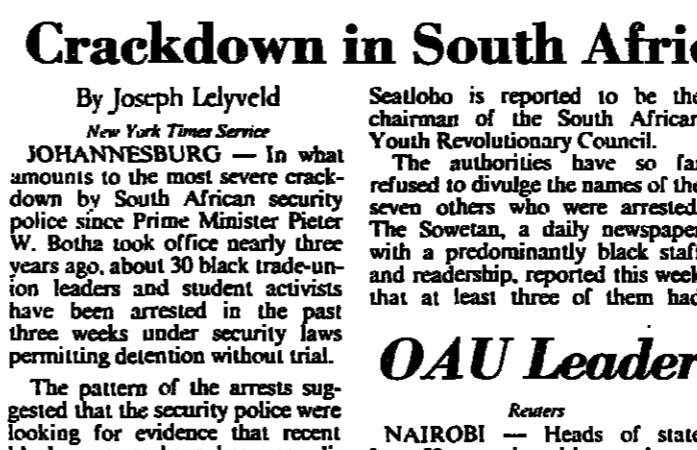
**By Alan Philips**  
Reuters  
TEHRAN — The dismissal of Ayatollah Abolhasan Bani-Sadr from the spotlight on the clergy-whom many Iranians believe the most powerful politician in the country: Ayatollah Ruhollah Khomeini, head of the Islamic Republic Party, which runs the government, courts and judiciary.

Ayatollah Beheshti, 52, a severe, 3-voiced figure who wears the turban of a descendant of prophet Muhammad, once told an interviewer: "You know, I'm really as powerful as people think to his countrymen he is behind the gradual loss of prestige that led to the Monday of Mr. Bani-Sadr 17 days after he won a huge victory in the country's first presidential election.

Beheshti's double role as party leader and chief justice has been criticized by opponents of a fundamentalist Islamic Republic as compromising the independence of the courts. But the shah says there is nothing in a revolutionary constitution, he had a big part in creating a ban on holding both posts.

Another Hat  
The removal of the president Ayatollah Beheshti another sign of the shah's return to power: He is on the presidential council that has taken over Mr. Sadr's duties and is responsible for holding new elections within 100 days.

Other members are the shah's (parliament) speaker, Ayatollah Beheshti, who, like Ayatollah Beheshti, is a founding member of the Islamic Republic Party, and Premier Mohammad Khatami, who is not a member of the party but who supports it and backs the council will not be able to hold the elections within the 100-day period because of the shah's return to power and civil war in some parts of the country would allow the council to



Zarah Leander, Swedish Singer, Actress, Is Dead

STOCKHOLM — Zarah Leander, 74, a Swedish singer and actress, died Tuesday. She had a cerebral hemorrhage last month.

With her sensuous voice and rich red hair, Miss Leander was a stage and screen star in Germany and Austria in the 1930s and 1940s, and a favorite of Josef Goebbels, the Nazi propaganda minister. She fell from his favor in 1942 and returned to Sweden, where she was popular in the 1950s.

### Lawrence Clement Dame

WASHINGTON (IHT) — Lawrence Clement Dame, 82, a journalist, author, art critic and a staff reporter and feature writer with the Paris edition of the New York Herald Tribune from 1929 to 1931 and again in 1936, died May 22 in West Palm Beach, Fla. His books included "Yucatan," describing his explorations in Mexico in 1940 and 1941. He was a former art critic for the Art Digest, London, and the Boston Herald Traveler.

### Robert S. Rozman

WASHINGTON (NYT) — Robert S. Rozman, 49, the chief of the drug metabolism section of the Walter Reed Army Institute and an authority on malaria, died last Thursday of cancer. Dr. Rozman played a principal role in developing mefloquine, a drug to treat types of malaria resistant to many other drugs. He also helped develop a drug that protects normal tissues, but not certain solid tumors, from effects of radiation therapy.

### Isadore Blumenfeld

MINNEAPOLIS (AP) — Isadore Blumenfeld, 80, who was known as Kid Cann when he headed a bootleg liquor syndicate during Prohibition, died Sunday. Before he was sent to prison in 1961 for trying to bribe a juror, Mr. Blumenfeld and his confederates — known variously as "The Combination" and "The Syndicate" — built a long history of crime in Minnesota. He was released after 3½ years in prison.

### OAU Leaders Arrive for Nairobi Summit

NAIROBI — Heads of state from 30 countries with a total population of almost 500 million have begun arriving in Nairobi for the annual summit of the Organization of African Unity, due to open Wednesday.

Despite the political and sometimes military conflicts that have divided the OAU, a meeting of foreign ministers preparing for the summit underlined that the organization is virtually united on at least two points — hostility toward the white-minority government in South Africa and suspicion of the United States.

Lengthy ministerial discussions left no doubt that Africans feel the Reagan administration is intent on achieving close links with South Africa at the expense of its black neighbors.

### Opposition Assails Regime Over Casablanca Violence

RABAT, Morocco — The Socialist opposition, accusing the government of using "the most brutal violence," called Tuesday for a parliamentary inquiry into the weekend clashes in Casablanca in which scores of people were killed.

The government of Premier Maati Bouabid said Monday night that 66 persons had died and 110 had been injured in the violence in the port city during a general strike. The opposition Union Socialist des Forces Populaires (USFP) said more than 100 had been killed.

In a statement Tuesday, the USFP said Saturday's strike, called across Morocco, had been a "grandiose demonstration of refusal to accept the increases in basic food prices decided and maintained by the government."

The authorities tried to break the strike by means of "intimidation and ... massive and general arrests." "Faced by the success of the strike, the government did not hesitate to resort to the most brutal violence, particularly in Casablanca."

While condemning the violence, pro-government parties also admitted that social discontent was partly justified.

The Socialist party, which belongs to the ruling coalition, said the people's purchasing power was in decline.

"One can only regret the absence of dialogue between the government and the trade unions, which could have permitted a direct and frank discussion," the party said through its newspaper, L'Opinion.

The majority party in the coalition, the Rassemblement National des Independants, appealed for "self-criticism and reflection on our behavior in all fields, to correct what must be corrected."

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Prizes From Greece

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Films

'Escape From New York': Unnerving for Everyone

By Thomas Quinn Curtiss International Herald Tribune PARIS — John Carpenter is a relatively youthful director...

In his latest venture, "Escape From New York" Carpenter has wed the horror flick and the catastrophe epic with street violence, terrorism, gladiatorial combats...

Its scene is Manhattan in 1997 as World War III draws to a close after vast destruction. The island is the last stand of anarchistic bands...

A war veteran, sentenced to life for post-demobilization crimes, is recruited with a promise of pardon to liberate the commander in chief...

He has the right actors for the right roles to Kurt Russell as the one-eyed, anti-may-care rescuer, Ernest Borgnine as the leftover taxi driver...

The film, billed here as "New York 1997," is at the Paramount City, the Monte Carlo and the Paramount Odéon in English.

It is disappointing to find Peter Bald Eagles Making Comeback in U.S.

United Press International PATUXENT, Md. — Bald eagles may be making a comeback along the shores of the Chesapeake Bay...

Waverley Root St. John, the Carob and Locusts

THE CAROB is also called the locust bean or St. John's bread because of the belief that this is what John the Baptist ate during his 40 days and 40 nights in the desert...

This was apparently a diet too unpalatable for belief, or perhaps considered unworthy of a saint high in the heavenly hierarchy. The carob seemed a plausible alternative...

It is my opinion that St. John ate exactly what the Bible says he did, locusts and wild honey — an excellent combination of proteins, fats and sugars...

The Moslem attitude was the same. Henry Lhote explained in "Dans les campements Touaregs" that for this Saharan people "all meat in order not to be efflu (unclean) must come from an animal which has had its throat cut according to Koranic ritual..."

I imagine many would be surprised at hearing the locust praised in terms of taste; but Shakespeare did it, although he put his description in the mouth of an untrustworthy witness, Iago...

From the nutritive point of view St. John might have been just as well off with locusts. Carob flour provides only 4.5 grams of protein per 100 grams of meal...

Lifestyles U.S. University Trains Shepherders

By Marguerite Herman The Associated Press CHEYENNE, Wyo. — Help wanted: Person who likes solitude, can cook at high altitudes and does not mind living in a tin-covered wagon...

A chronic shortage of native shepherders throughout the American West has forced many ranchers to turn to Peru, Spain or Mexico to find help.

Most wool growers would prefer to hire at home to save expense and trouble. To fill the need, the University of Wyoming has begun the nation's only shepherding school.

It's pointed toward a number of people in this country who might be interested in this kind of thing," said Frank Hinds, chairman of the university's animal science division.

During a silent prelude, dancers are displaced on the stage by the orchestra, which launches into the overture (Verdi's "Un giorno di regno" — King for a Day) under the conductor Ronald Zollman.

Fair enough, for Huisman had the happy idea at the beginning of his regime of inviting Béjart and his new Ballet of the 20th Century to make its home here...

The show's seemingly obscure title, "La Muette," has multiple references. The most obvious is to Auber's rousing opera "La Muette de Portici," a performance of which in this theater in 1830 — according to Belgian folk history — sent an inflamed public into the streets to ignite the revolution that made Belgium an independent country...

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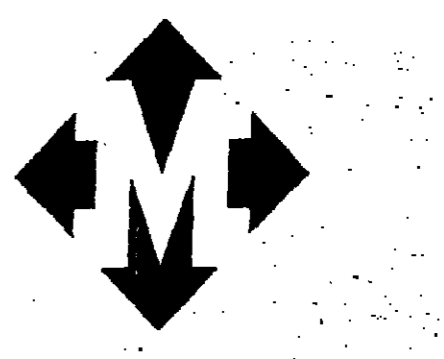


BMW AG, Munich

# NYSE Nationwide Trading Closing Prices June 23

Tables include the nationwide prices up to the closing on Wall Street.

12 Month Stock High Low Div. in \$ Yld. P/E 100% High Low Close	12 Month Stock High Low Div. in \$ Yld. P/E 100% High Low Close	12 Month Stock High Low Div. in \$ Yld. P/E 100% High Low Close	12 Month Stock High Low Div. in \$ Yld. P/E 100% High Low Close
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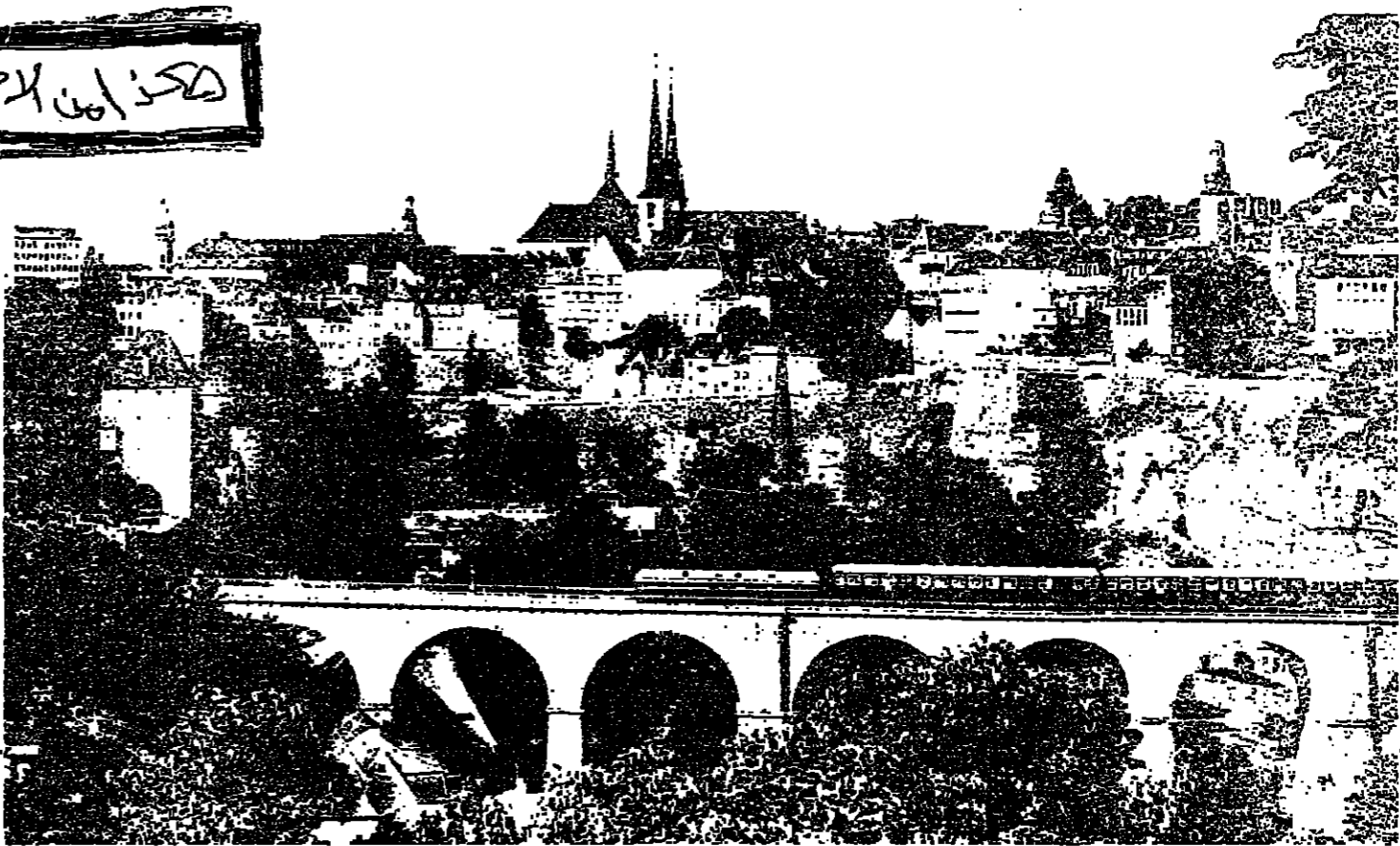
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Handwritten text in Arabic script: "بسم الله الرحمن الرحيم"

150 60 200

# Banking and Finance in **LUXEMBOURG**

A SPECIAL SUPPLEMENT



**SINCE 1856** — The Banque Internationale a Luxembourg has just celebrated the 125th anniversary of its founding. But it is only in the last two decades that it has made its presence felt on the international scene. See article inside.

## Running Hard and Maintaining Position

By Jasper Becker

**NOW HERE**, it takes all the running you can do to keep in the same place," said the Red Queen to Alice in Lewis Carroll's "Through the Looking Glass."

In the 20 years it has taken Luxembourg to become Europe's second city for Euro-market transactions, it is now that the Red Queen's observation is most relevant. Luxembourg's efforts to remain competitive with other offshore banking centers means that it has to run fast to stand still. If it does not, the banks that have brought prestige, employment and prosperity will go elsewhere.

The Boulevard Royal loops around the old city center in the site of the once formidable city walls. This is Luxembourg's Wall Street, with 112 banks from around the world. "They are all here for different reasons," a banker said.

Ernest Muehlen, the Luxembourgian secretary of state for labor and finance, explained: "While the number of banks has been encouraged by certain factors indigenous to Luxembourg, it is just as true that this development has been stimulated by circumstances outside the Grand Duchy."

This is not surprising. The Grand Duchy is a 1,000-square-mile wedge of land squeezed between France, Belgium and West Germany. Since the early 1920s, it has been linked to Belgium by an economic union (UEBL). Over the centuries, foreign armies and their potentates have come and gone but the Luxembourgians have kept their language and their cultural identity.

### Romantic City

Part of the attraction for foreigners has been the capital, perched across two ravines and dubbed the "Gibraltar of the North." It is ruled by a grand duke, whose family has been in power since 1890. The city, with a population of 80,000, has a romantic and fantastic air about it — a jumble of bridges, battlements and spires that draws thousands of tourists in the summer months.

The Euro-markets are loosely defined as transactions made in a currency outside its country of origin — a Euro-dollar is one that has been deposited and re-lent outside the United States. The banks that handle this business are generally attracted to places where

**This 1,000-square-mile wedge of land has grown dramatically as a financial center in the last few years. It is not a tax haven, yet it has attracted 112 banks. They are all here for different reasons,** said one banker.

taxation is low and no central bank exists to be disturbed by the movement of large amounts of foreign currencies. The market got underway in the early 1960s when the United States tried to protect the dollar through a series of capital control measures, in particular the Interest Equalization Tax.

Money can be raised in Euro-market centers at an interest rate below that afforded by domestic banks for a variety of reasons. First, because the banks are free of the solvency ratios imposed by central banks applying monetary control policies, they can lend more money with smaller equity reserves.

Second, the banks benefit from being in offshore centers that are tax havens, although this does not apply to Luxembourg.

Third, long-term funds can be raised in the form of bonds, and the returns are not taxed. The point here is that taxes on interest payments are usually withheld at the source, as is done for some domestic bond issues, and because the amount that could be reclaimed against withholding taxes varies from country to country, it is not possible for investors who buy bonds to get the same after-tax return in every country. Bonds are thus issued in Euro-bond centers because they are not subject to a tax on interest repayments.

### Spreading Risks

In order to spread the risks, there is a merry-go-round of banks accepting deposits from some banks and placing deposits with other banks. Although this structure has proved more durable than had been feared, it is based on a kind of impossible logic.

The business that came to Luxembourg initially was the raising of long-term capital in bonds, needed by U.S. or European companies unable to find it so readily at home. Relatively small amounts were raised in the early 1960s. Then came the explosive rise in the cost of oil, resulting in major distortions of the international balance of payments situation.

The oil importers had large trade deficits,

and the oil-exporting countries had correspondingly large surpluses. Recycling became the order of the day. The Euro-banks were the means by which the funds of the members of the Organization of Petroleum Exporting Countries were lent to the oil importers to repay the exporters. Nobody knows quite how much money is recycled in this way. Last year, the OPEC surplus was \$120 billion, while the developing countries' deficit was put at \$70 billion. The Western industrialized countries and Comecon countries had a combined deficit of \$55 billion.

The recycling system was jolted in 1980. Only \$77 billion worth of new credits were given, a drop of 6 percent from 1979. Oil prices continued to rise, but the developing countries' absorption of credit dropped from \$47.9 billion to \$34.9 billion. Borrowing by the industrialized countries increased, however, from \$27.2 billion to \$39.7 billion.

The growth of the Euro-markets slowed dramatically in 1979. The growth in 1977-1978 was 68 percent, but in the following year, the figure was 18 percent. The Euro-bond market grew only slightly in 1980 after the 1979 record year, because of widely fluctuating interest rates.

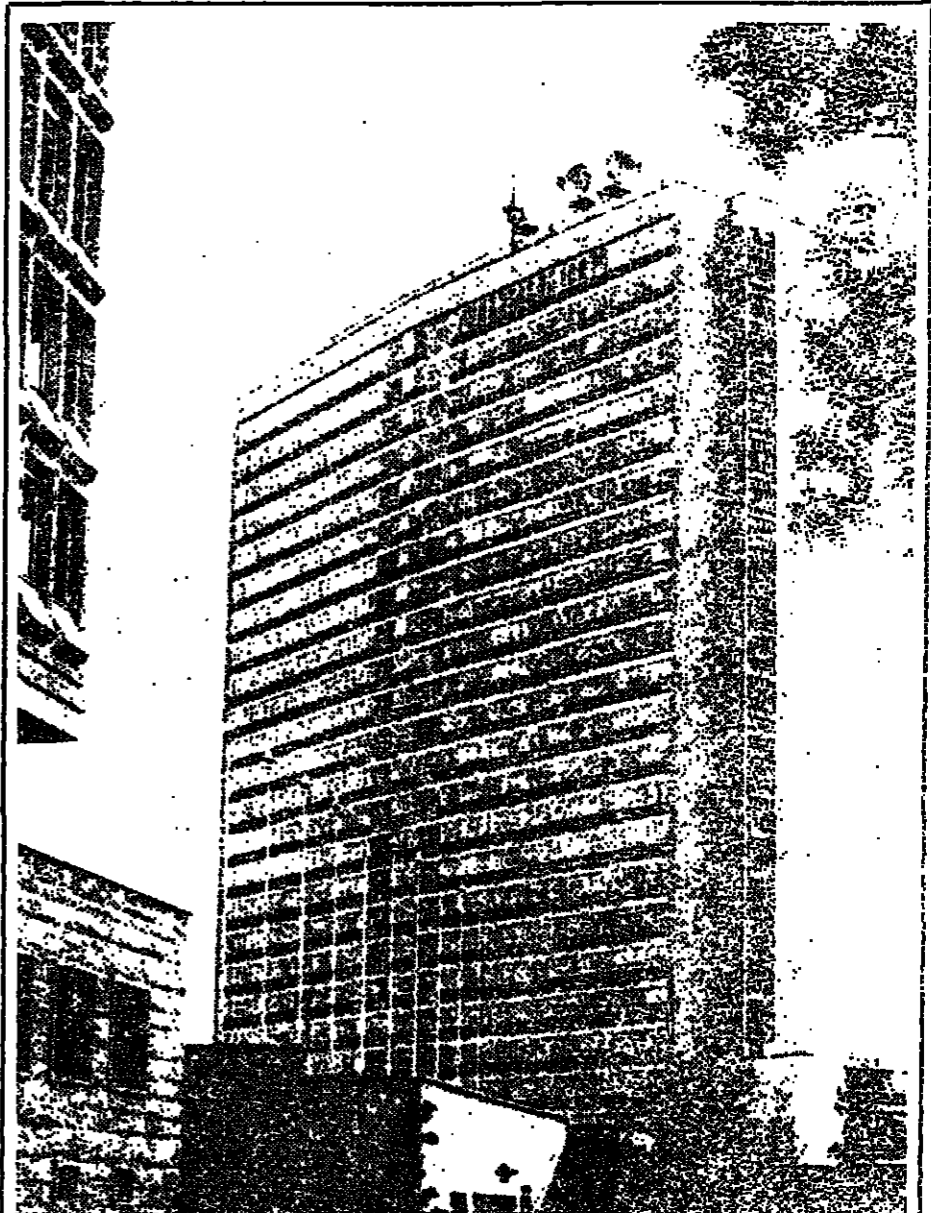
### Outpaced Market

Luxembourg's role has outpaced the growth of the market. The volume of business transacted in Luxembourg has shown an annual growth rate of 25 percent during the last years. Between 1973 and 1980, the share of Luxembourgian banks in total deposits received by banks dealing in the Euro-markets increased from 6.6 percent to 11.7 percent. For credits, the percentage is even higher — 12.7 percent. But, in line with world trends, the growth in new bond issues has slowed, although Luxembourg's contribution of \$18.2 billion represents 20.9 percent.

The reasons behind this dynamic growth explain in part why the expansion is slowing and why Luxembourg must struggle to keep what it has.

Commonly cited reasons for the attraction

(Continued on Page 10S)



**MEETING PLACE** — Luxembourg, a jumble of ancient bridges, battlements and spires, draws thousands of tourists each year. It also houses the European Center, with a hemicycle and offices in a 22-story high-rise, above. See article inside.

## German Banks on Scene First, Set a Hot Pace

A MAJOR TREMOR passed through Luxembourg banking circles in January when the acting chief executive of the Commerzbank, Paul Lichtenberg, publicly questioned the value of the bank's Luxembourg subsidiary. He has since retracted his statement, claiming that he was misinterpreted, but the commotion that followed revealed that the question struck a chord among the West German banks.

The disastrous results of 1980 have led many banks to reconsider their policies. Now, after the all-out growth in the 1970s, diversification — not expansion — has become the aim.

The West German banks are important because they were the first and largest group of foreign banks to arrive in the Grand Duchy in force.

Twenty-nine now dominate the scene, handling a major share of the business. In terms of the balance sheet size, four West German banks lead the field: the Compagnie Luxembourgeoise de la Dresdner Bank, the Deutsche Bank Compagnie Financiere Luxembourg, Commerzbank International and, well behind the other three, the Westdeutsche Landesbank International.

The Grand Duchy was the first foreign outlet when the German banks began belatedly to expand abroad after the war. Luxembourg was chosen to escape the minimum reserve requirements at home, and because it was close to home and language problems were minimal. "We created Luxembourg," a Frankfurt banker claimed, a bit brashly.

The Dresdner Bank was, in fact, the first German bank when it arrived in 1967. Within a few years, the others followed. Profits were high because the more liberal banking climate in Luxembourg requires only that a bank's equity must not fall below 3 percent of its lending. In Germany, the Kreditwesengesetz, the banking law, limits the credit volume of a bank to a factor of 18 times its basic capital and reserves. Because of the heavy German presence, Luxembourg has become the capital of the Deutsche mark bond, with more than 40 percent of the issues in DM bonds.

It was not surprising, therefore, that Mr. Lichtenberg's question achieved the publicity that it did. At the beginning of the year, the Landesbank Stuttgart had decided to move the bulk of its personnel to the London office, which had opened simultaneously with the one in Luxembourg. The decision by the small newcomer seemed another straw in the wind, but the move in fact reflected less a disillusionment with Luxembourg than a realization that the Landesbank had overstretched its resources. The Luxembourg office will therefore probably be reactivated in better times.

That there has been, and will be, some soul-searching among the German banks is undeni-

able, however. For West German parent banks, 1980 was marked by the worst performance since World War II — and the previous year's profits had been slim. The Commerzbank registered a 70-percent fall in group profits and won the dubious distinction of being the first bank in a generation not to pay its shareholders a dividend. The profits of WestLB fell from the 121 million DM of 1979 to 45 million DM.

Copied with the slump in profits is the prospect of the revision of the Kreditwesengesetz. Discussions are being held in Berlin and Frankfurt on the consolidation of overseas subsidiaries' accounts, which might lead to further reductions in the profitability of operations in Luxembourg and elsewhere abroad.

However dire some of these events may seem, the reality is less clear-cut. How the parent bank is managed need not directly affect the viability of its Luxembourg subsidiary because profits are also a question of accounting.

There are wide differences in the way each bank has been hit — or has judged the events of the last 18 months. The Compagnie de la Dresdner Bank, for example, has produced profits of about 700 million Luxembourg francs, considerably less than the year before but hardly negligible. The Deutsche Bank

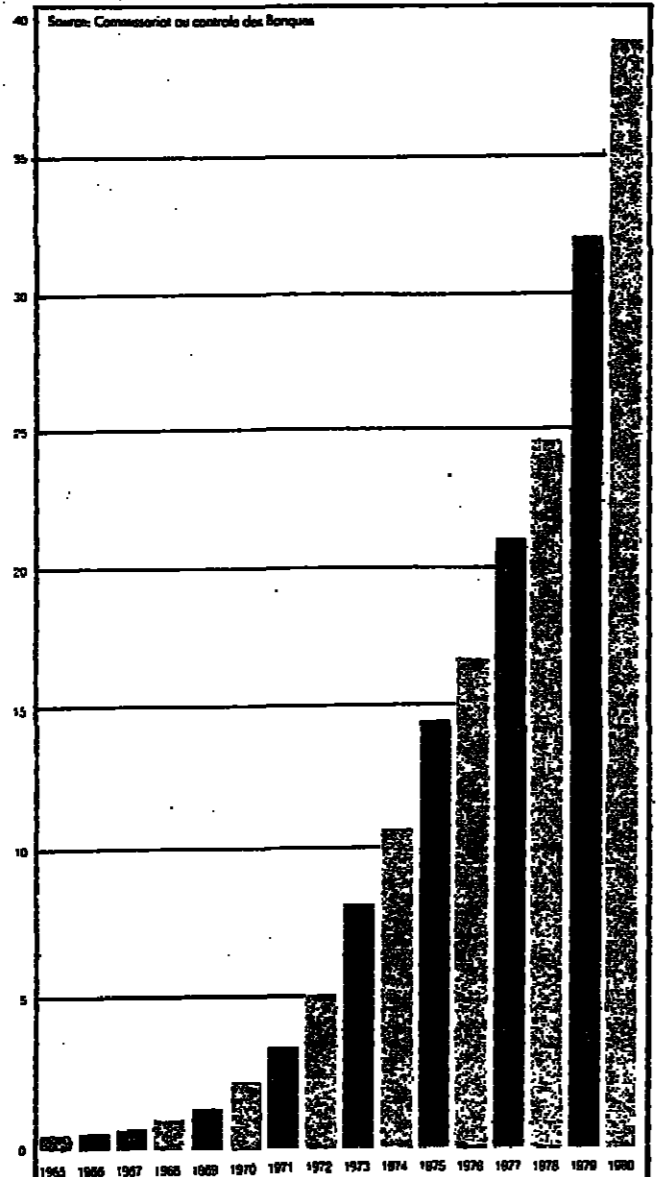
Compagnie Financiere Luxembourgaise increased profits slightly from 550 million Luxembourg francs for 1979-1980, but produced none in 1980. For the same periods, the Westdeutsche Landesbank International's profits fell from 673 million to 587 million to 484 million Luxembourg francs, while its capital resources grew from 3.5 billion Luxembourg francs to 4.4 billion.

### Syndicated Lending

All the Luxembourg banks have been hit by the general decline in margins on syndicated lending, and the need to write down substantially their holding of bonds, given the sharp price declines of international fixed securities. While the U.S. dollar has strengthened, the DM has reacted more slowly because of the Bundesbank's tight monetary policies. Short-term interest rates for Deutsche marks have remained high, making it particularly expensive for the West German banks to hold bonds in that currency.

The Commerzbank has come under the heaviest fire, partly because it was the first bank to admit that it had wrongly assessed the interest rate development for the DM. For the Luxembourg subsidiary, which needed an in-

(Continued on Page 8S)



**STEADY GROWTH** — Chart shows the increase in funds of the banks of Luxembourg since 1965. Figures at left are units of 100 billion Luxembourg francs.

## Nation's Size, Social Plans Buffer West's Economic Crisis

By Axel Krause

LUXEMBOURG is anything but isolated from the Western world's economic crisis.

During the last twelve months, its economy has experienced stagnating output of goods and services, worsening unemployment and inflation, plus a widening budget deficit. Moreover, Western economic analysts are predicting that, like its European neighbors, Luxembourg can expect no relief until the end of next year at the earliest.

But mainly because of its small size, generous social programs, and the long-established and cozy relations between politicians, business and government leaders, outsiders rarely attach the same significance to Luxembourg's problems as they do to those of its neighbors, notably Belgium.

"Small is beautiful, so Luxembourg survives better than most," said a senior government analyst for an international agency who is a specialist on the Luxembourg economy. "As in a small town, everyone there knows each other — the government ministries also are in one building — so problems get resolved easily," he said, adding: "Belgium is a giant by comparison."

### OECD Statistics

Indeed, Luxembourg's \$4.2-billion gross domestic product is second from the bottom among the ranks of the 24-nation Organization for Economic Cooperation and Development. Iceland has the smallest GDP, and Ireland ranks third on the OECD list with a substantially larger total of \$14.8 billion. Measured on a per-capita basis, however, Luxembourg ranks well ahead of Japan and Britain, slightly

**A slowdown in industrial production is playing a key role in the overall decline. Meanwhile, farm output has remained flat. There are some bright spots — food, wood and furniture — and each has registered modest growth.**

ahead of the United States, the Netherlands and France, but below West Germany, according to the OECD.

Luxembourg's immediate problem is coping with a decidedly gloomy outlook for world trade and steel output — both crucial for the nation's economy. Yet presently neither sector shows signs of recovering.

In its recently-published annual review of the Luxembourg economy, the OECD concluded that in 1981 the nation's GDP will "remain flat or even decline, especially in view of the expected trend of the steel markets."

The GDP growth, which last year averaged 0.5 percent, will actually fall by that amount during 1981, according to government forecasts published by the OECD. This performance, paralleling similar recessionary conditions throughout Europe, follows growth rates of 3.6 percent in 1979 and 4.3 percent in 1978.

### Industrial Slowdown

A slowdown in industrial production is playing a key role in the overall decline — notably in steel, but production in the mining, gas, electricity and chemicals sectors also has been falling. Meanwhile, farm output has remained flat overall, and wine production has been undergoing what the OECD described as "a very steep decline." There are some bright

spots — food, wood and furniture — and each have registered modest growth.

Although output in the services sector has also been declining — notably Luxembourg's airline operations, which have been hard-hit by fare competition on the North Atlantic — an offsetting effect is coming from Luxembourg's financial establishment. Its employees account for roughly 5 percent of the nation's work force and, as the OECD noted in its review, "the influx of financial and banking institutions into Luxembourg has contributed to the growth of the domestic economy."

But by almost any standard, employment problems in Luxembourg are virtually without significance. By early 1981, unemployment had grown to 1,550, split roughly equally between women and foreigners — a situation hardly explosive for a nation with a total work force of 158,000. The OECD dryly noted that the jobless level, although it had deteriorated, was "still satisfactory."

Luxembourg's inflation, one of the lowest in the OECD area, is also not causing much alarm among government planners in Luxembourg or at international agencies, such as the European Economic Community and the OECD. Although prices last year climbed by 6.3 percent, roughly half the OECD average, the year earlier the rise was only 4.5 percent.

"Considering the low inflation and unemployment, the fact that the Luxembourgian government offers generous social programs and benefits to the jobless and that there are no strikes in Luxembourg, it is clear that its problems are not terribly serious, compared to Belgium, for example," a senior government analyst in Paris said.

### Creating Jobs

This is not to say that Luxembourg lacks problems. For example, the government is still in the process of trying to attract new industry to the south of the country. The goal is to create 7,500 jobs in new industries to offset the reduction of workers in the steel sector, but the competition in the form of attractive investment from France and West Germany is "stiff," in the words of one observer.

Also, Luxembourg may soon have to face what the OECD described as a chronic deficit in its national budget. The 1981 budget allows for a deficit of 1.4 billion Luxembourg francs, which will be covered by drawing on the budget reserve and by increased borrowing.

Government projections published by the OECD indicate, however, that "in the medium term the Luxembourg economy may experience a chronic public finance deficit which will probably involve new finance procedures."

The OECD concluded that the government's budget reserve by 1981 — for which the government believes the "critical threshold" is 3 billion Luxembourg francs — will no longer be sufficient to cover the shortfall. "The new pressures are there and Luxembourg's challenge will be solving them in the presently difficult situation of Europe," a French government budget specialist said.

# Banking and Finance in LUXEMBOURG

## Germans, First on Scene, Set A Hot Pace for Other Banks

(Continued from Page 7S)  
 ject of 63 million DM from the parent bank so as not to produce a negative result, it brought home the fact that it was an outlet for business that could not be done at home. It is artificial to separate the two accounts. The policy decisions are made in Frankfurt.

Although Mr. Lichtenberg suggested in January that it might be better to shift the business to London, as the Swiss Banking Corp. had done in 1978, this idea has been dropped. After all, the Luxembourg subsidiary is no fly-by-night affair and its viability is looked at on a long-term basis.

A drop of 12.4 billion Luxembourg francs from the previous year in the balance sheet total was accompanied at the Commerzbank by a change in policy. Holdings in securities and equity were cut, the former by 10 percent, and greater caution was used in loans to banks and companies. The emphasis is being placed on portfolio management for private customers, a large number of whom began taking advantage of a billion account. What counts for a Eurobank, however, is the credit volume and, despite the strong upswing in 1980, credit granted by the Commerzbank rose by a mere 6.3 percent.

**Customer Credit**  
 The stock becomes greater when one realizes that about 60 percent of new customer credit business in Luxembourg, between January and October, 1980, was due to loans of German subsidiaries to customers in West Germany. More than 50 percent of the balance sheet growth in Luxembourg was the result of these transactions.

Although the Commerzbank and others made mistakes in investing in long-term bonds and mismatching these with short-term loans, the pattern is very uneven. The private banks have done well in 1980, not only because they were more cautious and accepted fewer long-term bonds but because they compensated for reduced results with trading in foreign exchange and gold.

Volker Burghagen, the managing director of the Dresdner Bank in Luxembourg, attributes the comparative success of his bank's year to a greater flexibility allowed by his head office, which has, for instance, found expression in a more developed private clientele

business. And having 20 percent to 25 percent of the bank's liabilities in non-banking deposits also brings a measure of freedom. Recently, the loans syndication department has been transferred to Luxembourg from Frankfurt.

This policy has paid off. The bank now has the doubtful honor of being the largest single taxpayer in the Grand Duchy. It is fittingly housed in a splendid 18th-century house close to the Grand Ducal Palace. But Mr. Burghagen fears that the bank's prestige may be eroded somewhat when the 1981 report is published, because although the worst is over, the poor business may show up only later.

**Refinancing Resources**  
 One policy adopted by the Dresdner may be copied by the other banks. "For the wealthy international investor, Luxembourg could become another Switzerland, particularly for someone who does not want to put all his eggs in one basket," Mr. Burghagen said.

For a bank, this has the enhanced attraction of enlarging the frame of refinancing resources. To date, with the exception of the Dresdner, non-banking deposits account for only between 1 percent and 4 percent of the liabilities of most of the German banks. The change would take time and a substantial increase in personnel. For the Landesbanks, this would indeed be difficult without either the branch network or the right sort of clientele.

It is the banks' heightened risk-consciousness that has affected the Landesbanks more than anything else. WestLB continues to place the emphasis on lending, and out of a balance sheet total of 139.5 billion Luxembourg francs, lending accounted for 110.6 billion.

The crisis over Poland's debt has blunted the desire to lend to anyone outside the members of the Organization for Economic Cooperation and Development. More than two-thirds of WestLB's total loan portfolio went to Western industrialized countries. But two of the directors, Wolfgang Speier and Horst Senff, commented, "We now more than often say no than yes to those asking for international credit. We have little interest in drumming up new business but prefer to consolidate our existing circle of clients."

The concentration of lending to European countries is likely to

continue. The Deutsche Bank is rumored to have burned its fingers on Poland. Its large net profit in 1980 was offset by provisions for bad debts, and WestLB is heavily involved with Brazil, another high-risk country, although credits to developing countries account for less than 25 percent of WestLB's overall credit volume.

**Banking Law**  
 The willingness to lend is decreasing further under the continual speculation over the eventual form of the revised West German banking law. Provisions are being made by many banks to take into account any extra capital that would be needed if the present ratio requirements in West Germany are applied to subsidiaries.

Important as the new law will be, its impact will not be felt for three or even five years. In any case, all foreign subsidiaries of West German banks will be equally affected. A reassuring thought for the Luxembourg tax authorities. No bank is likely to want to leave on this account alone.

Generally, the leaders of West German banking welcome the reform of a law that is long out of date. It was conceived at the end of the 1950s before any German banks had established themselves abroad, and the nature of trade finance has changed since then; banks are now financing the importer and not the exporter, so the nature of international credit risks has changed. At the time, the DM's importance as an international currency was not foreseen, and now that the Bundesbank is concerned with controlling the money supply and the unit's exchange rate, the law needs amending.

Another aim has been partially fulfilled — a greater transparency has been obtained by a voluntary agreement for annual audited reports of offshore banking subsidiaries to be sent to the German supervisory authorities.

Mr. Burghagen plays down the threat of the new rules, which have yet to be drafted. He points out that the West German authorities do not intend to undermine the competitiveness of German banks but to prevent unreasonable excesses. Yet the total lending capacity applied to consolidated figures would be reduced by 70 billion to 90 billion DM. It is likely, he suggested, that the new rules

## Stock Market Showing Vigor

THE LUXEMBOURG stock exchange is tucked away off a busy shopping street in the old part of the town. The office block that houses it is clearly younger than the stock exchange itself, which was founded in 1927 and opened somewhat unfortunately in 1929. Business boomed for only a few months until the Wall Street crash ended any hopes of quick development. And then came the war.

Business really took off in the early 1960s when the Euromarket came to life. Until 1974, it was the only stock market where the Eurobonds could be listed and covered 99 percent of the market. Then the London stock exchange updated its rules and has managed to get almost one-third of the market. Despite this competition, the Bourse continues to play an important part in ensuring Luxembourg's key role as a financial center.

It is, however, a curiously Luxembourgian entity. It was founded as a private company — although it is a monopoly granted by the state — with the intention of listing the bonds of a few local companies wishing to raise finance.

But the founders were farsighted — the Bourse can easily adapt its structure to suit market needs by a decision of the directors that has only to be approved by the finance minister. Not only could the holders of shares and bonds issued by Luxembourg companies sell their securities there, but the law that in 1927 created the stock exchange made it attractive for foreign investors as well. The Bourse was granted freedom from turnover tax and stamp duty, and its legal situation was defined by a few vague laws.

The law of 1929 abolished withholding taxes on fixed-interest securities, so withholding companies could then be set up to issue bonds for foreign companies, which are then listed on the Luxembourg stock exchange. Equally important, the stock exchange allows quotations to be listed in the currency of issue. In the early 1960s, the first international bonds listed were issued in European units of account, and Luxembourg was the only place this could be done.

Luxembourg now owes its attractiveness as an international listing center to the low listing fees, the unbureaucratic procedures for admission and the lack of withholding tax. But an overwhelming majority of the bonds listed are issued by companies registered in the Netherlands Antilles (and at the same address there), where it is even cheaper to set up holding companies.

The stock exchange's manager, Charles Ewert, said that the advantages of listing on the Bourse stem from the low number of administrative staff members (20) and the free "brain trust" that guides it — the commission that meets twice a month, ensuring that the market is working properly with prices and quotations appropriately fixed, that the new bonds are carefully checked and that disputes are settled. The commission consists of 11 members nominated from among Luxembourg's leading bankers by the board of directors; they are not paid for this work.

Although the Bourse is a private company, the financial control rests with the government, which nominates the commissioner. The Bourse itself, however, is a banker's exchange — the bankers act as brokers but most of the trading is carried on outside the confines of the Bourse.

Since 1974, the number of securities listed has doubled to 1,250. "We would never have been able to handle all the business alone [that is, if a great deal did not go through London], Mr. Ewert said, adding that Luxembourg must continue to adjust to changes and develop new business. For example, gold trading was opened in March. "After three months we have even peaked at half the volume handled in the London market," Mr. Ewert said.

The annual report for 1980 shows that, despite an erratic year, the volume of bourse transactions increased by 25 percent and foreign dealing rose by more than 60 percent. New admissions numbered 171, of which 116 were in U.S. dollars.

—JASPER BECKER

will differentiate between foreign and domestic assets. But, in the meantime, the pessimists are pretending that the ratio of 18 is already being applied.

**Smaller Banks**  
 In the long term, therefore, the impact will surely be on some of the smaller German banks who have subsidiaries in the Grand Duchy. With smaller capital resources and generally declining profitability compared to the boom years of the 1970s, a few might prefer to leave for other offshore banking centers where taxes are easier.

A certain amount of pressure is being exerted on the Luxembourg authorities to improve the general climate. The new secrecy law, the abolition of stamp duty on certificates of deposit, and the opening of the gold market are indications that the point has been taken. Is it enough? Mr. Burghagen thinks

that the Luxembourgers missed their chance about two or three years ago when they might have reduced the tax burden on banks.

The competition from other offshore banking centers is heating up and, despite their distance from West Germany, they are becoming a serious threat. To reduce the taxation on banks would now be political suicide, with the steel industry in poor shape and the second pillar of the Luxembourg economy, Radio-Television Luxembourg, undertaking a major investment in a new satellite. One possibility being seriously examined by the Dresdner Bank is to arrange and manage the loans in Luxembourg, but to register the volume in Singapore.

Taxes in Singapore are 40-percent below Luxembourg rates, and some banks are starting to book new business in the Far East. Of course, a major loan cannot easily

be transported or refinanced in Singapore at the moment. It is possible, however, especially for the large commercial banks that already have established offices there. Profitable as this would be for the banks themselves, it would be a blow to the finances of the Grand Duchy.

—JASPER BECKER

## American Banks Reduce Presence

SOME OF THE leading names in U.S. banking are to be found on Luxembourg's Boulevard Royal. But their contribution to business is, by any standard, disappointing.

The arrival or departure each year of one or another of the banks reflects the half-heartedness with which New York regards their presence here. The U.S. banks were one of the first groups of foreign banks to arrive in the Grand Duchy, and their numbers rose to 16 in 1973; there are only nine now. Despite this drift away from the Grand Duchy, Manufacturers Hanover Trust set up a branch almost a year ago.

The U.S. banks came because at the end of the 1960s it looked as though Luxembourg and not London would become the center of the Eurodollar market. The banks that stayed have found niches in the finance market in Luxembourg that are not always large but nearly always justifiably profitable. The Chase Manhattan Bank Luxembourg, the American Fletcher National Bank and the Bank of Boston have all in turn been forced to reconsider their presence but so far have decided to stay.

Citibank (Luxembourg) was set up in 1972 and, like some of the others, made the mistake of offering too wide a range of services. "We quickly concluded that we had to specialize," said Gerard Fievet, its director. "Now everything we do is related to the Euro-bond business. The handling of private accounts, et cetera, was dropped." With an unchanged staff of 14, Citibank managed to make profits of \$1.2 million in 1980, mainly by acting as a paying agency, collecting coupons and in general being used as a depository bank for the London and New York offices.

**Correspondent Banking**  
 Like most of the U.S. banks, Citibank carries out no treasury operations in Luxembourg. "We never thought it was justified. This can be done better in London or Brussels," Mr. Fievet said. "But since Luxembourg is the second-largest center for Eurobonds after London, we have to be here."

Mr. Fievet sees in Luxembourg a potentially profitable business in correspondent banking, and plans to step up contacts with the 111 other banks to drum up more of this business. This commission-or-

ented business allows local banks without an office in New York to use Citibank's office for dollar transactions.

Correspondent banking is important for the Philadelphia National Bank, but the Bank of Boston has also managed to make a living out of private banking.

Generally, however, the U.S. banks keep up a presence in Luxembourg less because of its attractions compared to other sites than because of the banks' global strategy.

"The principal reasons for us coming here at this rather late date," said Rainer Gebhardt, the managing director of Manufacturers Hanover Bank Luxembourg, "is that we had different priorities to fulfill before considering Luxembourg. We first thought of it six to eight years ago, along with other international banks. But we first

**The total rose to 16 in 1973 — and now only nine remain.**

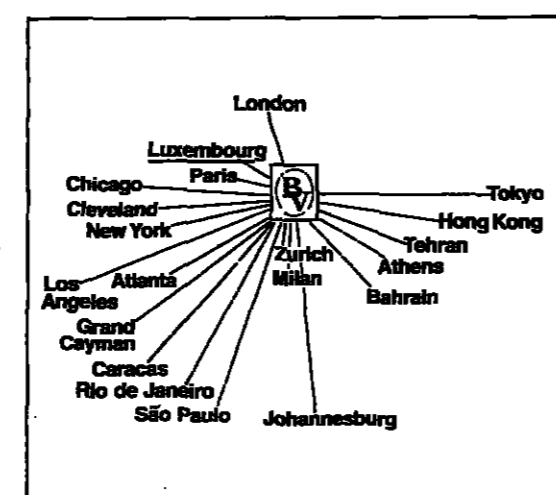
established ourselves in important commercial as well as financial centers like Milan, Bahrain, Hong Kong and Singapore. When this network had been completed, we again gave Luxembourg serious consideration."

Manufacturers Hanover's ambitions are for the moment concentrated on the correspondent banking sector. "We feel that we should show solidarity with those banks which have made a go of it here. With our global orientation and strength, we felt it was proper that we broaden our relationship with those here," Mr. Gebhardt said.

The bank has chosen a cautious approach, starting with a staff of 10. The offices have room to accommodate as many as 30, however. "We want to explore asset management further but it takes time to assemble the clientele, since we do not want to compete with our offices elsewhere in Europe. We have also taken an active role in the interbank deposit market, particularly in relation to our size, in order to demonstrate that we are available for business," Mr. Gebhardt said. The bank has also done some short-term deposit dealing and normal Euro-lending.

—JASPER BECKER

## BVI - 10 years of activities in international financing

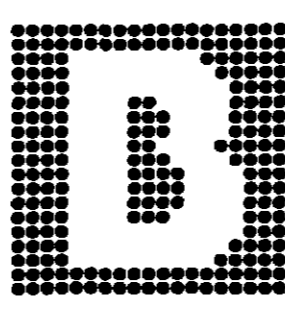


1971 - 1981 Ten years in Luxembourg  
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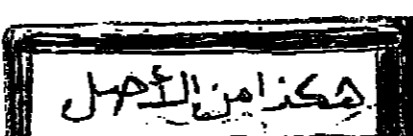
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TIME OFF

White Wines Of Quality, Little Fame

BORDERS ARE a curious thing. The Moselle River winds through a lush valley. Both banks have sloped and terraced vineyards running up small hills with old, tidy villages facing one another across the river. On both sides, the same Riesling and Pinot grapes are grown. But one side is West Germany and the other Luxembourg — and a German Moselle and a Luxembourg wine have little in common except the varietal name on the label.



Grape harvest in the Grand Duchy's Moselle wine district. This year's crop shows promise.

Luxembourg wine is almost always dry, often fruity — and little-known and under-appreciated. The yearly production is sold out with most of the rest of the world never tasting it. It is hard to find a Luxembourg bottle anywhere in France. "It is very difficult to sell wine to the French," said Hubert Clasen of Bernard-Massard, an independent Moselle winery.

There is also a fruity but very dry Auxerrois that seems to vary greatly from year to year, some very good Pinot Blanc, a Riesling of impressive character, and a small quantity of Pinot Gris and Traminer.

There is also a growing production of sparkling wine made in the natural fermentation process known as the Champagne method. Originally, Luxembourg Riesling and Pinot were used. Today there is no longer a surplus of still wine, partly because of some bad years, and much of the sparkling wine is made from French and Italian imports.

The quality and labeling of the wine is controlled by the Luxembourg government. Wines that meet government standards and whose labeling authenticity is guaranteed by law have a label on the neck of

the bottle called the *marque nationale*. About 40 percent of the production carries this label. Such wine is termed *vin de qualite*. A small percentage of the *vin de qualite* is designated *vin classe, premier cru* or *grand premier cru* (the best).

Cooperatives

Although the independent-minded vintners have resisted the idea of cooperatives, financial pressures have caused a grouping process so that today only 8 percent of the production comes from independent vintners, and one cooperative, Vinsmoselle, controls three-quarters of the national production.

The independent vintners do not hide their irritation about the conglomerate process. "The cooperatives like to pretend that they are the only Luxem-

bourg wine makers," Mr. Clasen said.

But times are, and have often been, hard for these vintners in some of the most northerly vineyards of quality in the world. Spring temperatures that suddenly drop below freezing have caused disasters in many years. In 1949, the crop was destroyed. The past three springs have had too much rain and lacked sun. The total production for the three years was about 15 million liters, which used to be considered an average single year. The last really good year was 1976.

This year shows promise in spite of some early damage. This month, when the flowers come out, is the critical time, and the strong sun and gentle night rains seem ideal.

Most Luxembourg wines should be aged between three and five years. But if you go to the Moselle in November, you might get a chance to taste a local delicacy called *Fieserwiesen*, the cloudy, month-old wine that is available for about three weeks. The Moselle people drink it while munching nuts and, according to one local connoisseur, end up with tremendous hangovers.

—MARK J. KURLANSKY

Scandinavian Banks Flourishing

IN CONTRAST to the big West German banks in the Grand Duchy, the Scandinavian banks have sailed through the last 18 months with flourishing profits and balance sheets.

The 12 Nordic banks represented either as fully independent subsidiaries or as partners in consortia form the second-largest group of foreign banks. All of them rank below the main West German and Swiss banks in terms of balance sheet size, but together they exert a considerable influence on the market.

They have distinguished themselves by the speed with which they have settled down and the confidence with which they expect their operations to continue to expand. Den Danske Bank International S.A., which opened in August, 1977, is the largest Nordic bank and holds 22d place among the 112 banks in Luxembourg, with a balance sheet total of 36.6 billion Luxembourg francs. The average age of the other banks is also about four years, but the Norwegian Christiania Bank was in Luxembourg in 1970, followed by the Den norske Creditbank (Luxembourg) S.A. in 1974 and the Danish, Finnish and Swedish banks in that order.

For most of the Scandinavian banks, the decision to come to Luxembourg was a step in the dark. Although many already had interests in London banks, most Scandinavian banks are, in comparison to the West German or British, too small to interest themselves in setting up more than one or two subsidiaries abroad. Because of inexperience in offshore banking, the banks waited for a few early settlers to justify their moves. With the arrival last autumn of the Gotabanken, the roll call of major Scandinavian banks is complete.

New Marketing Team

Those that have been in Luxembourg a few years, like the Den norske Creditbank (DNC), are already doing well enough to start building new premises or hire additional staff. This June, the DNC brought in a new marketing team, raising the staff to 35, which will be housed in a new 2,500-square-meter building.

While it is true that the Scandinavian banks came for much the same reasons, they should not be mistaken for a uniform block.

"Our activity has to be seen in the light of the Norwegian economy and its development," said Ole Aamodt, the new managing director of Den norske Creditbank. "We are becoming more outward-looking in Norway, due to the balance of payments surplus. Other Scandinavian countries, like Sweden, have become heavy capital importers, so their banks may have found growing markets in their home countries."

Why Luxembourg? Aside from the Norwegians, the others were encouraged to go to Luxembourg by their central banks to raise financing on the Euro market for the substantial balance of payments deficits run by the Nordic countries after the oil price rises. With its newly discovered oil and gas reserves, Norway is in a different position.

But why Luxembourg? The central bank's policy of imposing tight restrictions on local institutions wishing to provide international financing to local companies meant that the banks going abroad had to follow their customers. The Danish banks that have gone to the Cayman Islands have done well there, but the islands are far away. For the larger Scandinavian banks already established in London, Zurich and Paris, Luxembourg seemed the natural outlet for perhaps their first wholly owned subsidiary. And the easygoing capital ratios in the Grand Duchy suited the needs of medium-size banks better than those in London.

The Luxembourg authorities emphasize that any bank wishing to settle must not be just a booking office for domestic business, but operate on an international level.

Norwegian Situation

The Swedish central bank, the Riksbank, extracted a commitment from Swedish banks applying to establish themselves abroad to keep 70 percent of their business Swedish-related. But the world being what it is, there is in fact no conflict of interest. As Bengt Senneby, managing director of the Skandiaviska Enskilda Banken (Luxembourg) S.A., said, "The promise can be widely interpreted, as credit can be given to Swedish subsidiaries abroad, Swedish exporters and importers, and for financing the needs of importing countries. We are following the Riksbank's wishes, but it is not allowed to control us or look at our books."

To some extent, central banks can put pressure on foreign subsidiaries through the head office, but the banks are in Luxembourg with the central banks' blessing. This has become even warmer recently

as monetary control has become stricter in Finland, Denmark and Sweden, and as higher liquidity ratios have been forced on many.

The Norwegians face a different situation. "We are changing actively from concentrating on funding the Eurocurrency needs of our customers in Norway — which over the past year can be covered at home — to also become an international financing vehicle of the DNC group," Mr. Aamodt said. "But the group, in international terms, with total assets of \$5.5 billion, is still not of any major size."

Fearful of overheating the economy, the Norwegian central bank decided to encourage the export of capital by permitting, under supervision, assets in foreign currencies to be granted to residents and non-residents alike. So far, however, most of the revenue from oil has been absorbed into the domestic economy.

Other Directions

Den norske Creditbank has taken the initiative to develop business in other directions, such as foreign currency trading in Scandinavian currencies only — and loans to energy-related projects. During 1980, loans to customers, Norwegian and otherwise, increased by 28.6 percent to reach 13.83 billion Luxembourg francs. Of this, 65 percent went to companies involved in shipping, shipyards and offshore petroleum exploration.

The currency market will grow in Luxembourg, Mr. Aamodt believes. Much of it is traded among the Scandinavian banks whose customers are themselves heavily engaged in common business and so need to cover sales and purchases in these currencies. It is, in fact, an extension of the forward markets at home used to cover exchange risks of exporters and importers outside Scandinavia.

Whatever the differences among the business pursued by the Nordic banks, all made at least pleasing profits in 1980 by most standards. Den norske Creditbank showed a net profit of 118 million Luxembourg francs, 12.4 percent higher than the year before. In its sixth fiscal year, total assets grew by 60.7 percent to 28,028 billion Luxembourg francs. Last December, the bank raised a \$20-million subordinated loan to strengthen its capital base so that equity capital amounted to 1,885 billion Luxembourg francs at the end of 1980. Like most of the Nordic banks, deposits from Scandinavians abroad, including companies and private

citizens, made a welcome addition to the banks' funds.

The total assets of the Skandiaviska Enskilda Banken (Luxembourg) increased by 28 percent to 23.172 billion Luxembourg francs, a slower rate than the 46-percent rise of the 1978-1979 year. Gross profit was up by 3 percent, again a little disappointing compared to what had been hoped for at the beginning of the year.

Mr. Senneby cited the low margins on syndicated loans as a reason. "The number of syndicated credits to developing countries dropped, the supply of money increased, but the banks had become more cautious. So everyone was throwing credits at OECD [Organization for Economic Cooperation and Development] countries producing margins that were very low. Banks preferred to give credits to Finland or a Swedish company than to Brazil." Nonetheless, Mr. Senneby's bank managed to increase its credit portfolio by 52 percent during 1980.

The Svenska Handelsbanken S.A. (Luxembourg), another Swedish bank, also registered a slowdown in the rate of expansion. Total assets increased by 22 percent to 20.498 billion Luxembourg francs, while the increase the year before was 66 percent. Meanwhile, in Sweden, the parent bank had a poor year, with a drop of 13 percent in profits. A similar report could be made about the other Nordic banks in the Grand Duchy.

The Swedish state-owned commercial bank, Privatbanken, came out of a recent survey 10 places ahead of the next Nordic bank as lead manager in syndicated Euroloans. The trend is for the Nordic banks to move from bulk lending to domestic clients, to competing for other international clients. This tendency is likely to be strengthened if foreign or domestic banks are allowed to handle more of the home-based custom.

Mr. Senneby believes that 1981 will also prove a year of slower growth for the Nordic banks, but there are few indications that the banks are going to consider dealing in bonds or other securities. "The profits come from the credit portfolio and foreign exchange transactions," he said. As for competition among the Nordic banks, lead managers will always call their friends in the other Nordic banks to see if they want to join before trying anyone else. "Here, we are more like colleagues than competitors," Mr. Senneby said.

—JASPER BECKER

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## Banking and Finance in LUXEMBOURG

# Government Priority: Diversity and Improvement in Financial Activities

THE GOVERNMENT is making it a priority to diversify and improve Luxembourg's financial activities. "We no longer expect to expand at the rate we have done in the past, so we are now concentrating on consolidating our gains," said Ernest Muehlen, the secretary of state for finance.

Pierre Werner, who has been premier since July, 1979, and who is a former premier, made clear at the beginning what his government's intentions were, and the infrastructure laws and institutions are being overhauled to match the demands being placed on them.

"It is really a case of trying to remove the disadvantages which Luxembourg has and other financial centers do not have. We are

not going to create special tax advantages for the banks — we cannot afford it," Mr. Muehlen said. Priority has been given to the negotiations of double taxation treaties. This is, as Mr. Muehlen admits, a laborious chore and a difficult one for a small country like Luxembourg because many countries — in South America, for example — have little incentive to negotiate these treaties with Luxembourg.

**Worthwhile Asset**

They are nevertheless a worthwhile asset. Reinhard Schmoelz, the managing director of Credit Suisse (Luxembourg), said: "A lot of South American business goes to London which we

could easily have done here if there were enough double taxation treaties."

On the whole, the bankers appear satisfied that the authorities are moving as quickly as they can on these agreements. A treaty was signed with Brazil this year, adding to those with Denmark, Finland, Italy, Sweden, Norway and Morocco. Negotiations are under way with Spain, South Korea, Greece, Switzerland and Canada.

Another problem is the reform of the banking laws. The legal framework is based on the French Napoleonic Code, while the taxation system is of German-Austrian origin. There are historical reasons for this hybrid, but it tends to mean getting the worse of both

worlds. According to Charles Ewert, the manager of the stock exchange, the German laws have still to be translated into proper French.

There are a number of legal reforms taking place this year. The EEC Banking Directive of December, 1977, is being implemented, bringing the Grand Duchy's laws in line with those of the rest of the European Economic Community on such things as banking secrecy, the right of establishment, control of group balance sheets and credit risks, and the calculation of the ratio between a bank's own resources and its assets.

**Banking Secrecy**

Much importance is attributed to the legal definition of banking secrecy, which had been observed but without sanctions for violations. The new law will give bankers the same obligations as doctors or lawyers. For the private investor, it gives Luxembourg some of the appeal of Switzerland.

A second piece of legislation that should be adopted by the end of the year concerns investment funds, which at present exist in a judicial vacuum. The 80 funds will be put under the supervision of the banking commissioner and given the same tax status as holding companies.

As far as diversification is concerned, the authorities have taken measures that have met with the full approval of the banks. The value-added tax on gold transactions was abolished in 1979 after the West German and Swiss, at the height of the gold fever, applied the VAT to legal tender. Previously, coins were free of this tax. Only gold used for industrial purposes is now taxed in Luxembourg.

A law is also being drafted permitting investors to submit certificates of gold to banks anonymously to facilitate transactions. Arrangements have also been made to store the gold physically in Luxembourg.

**Stamp Duty**

Another move to help the banks develop their portfolio management services was the removal of stamp duty on certificates of deposits, although this has yet to really take off.

The banks themselves are trying to press for tax cuts. "We have no intention of becoming a tax haven," said Jean-Nicolas Schaus, the No. 2 man in the Banking Commission after Commissioner Pierre Jaans. But in response to criticism about the lack of double taxation treaties, the government in 1978 decided to give tax relief first of 7.5 percent and then last August of 15 percent of corporate income tax on foreign revenue.

Since February of last year, a group of lawyers, bankers and officials has been meeting to clear up other legal problems or inadequa-

ties. There also have discussions in promoting education and training for banking careers, and there are hopes that a structured and specialized course will become available at the School of Business and Administration.

**Tax Income**

The government also promised to improve the parbanking sector environment to attract insurance companies, stockbrokers and the like. So far, there are 14 credit institutions, five stockbrokers, five leasing and factoring companies, and six firms involved in portfolio management. Mr. Muehlen is optimistic about attracting international investment and re-investment firms, and points to the decision by the West of England Shipowners and Mutual Protection and Indemnity Association to come to Luxembourg.

The drive to broaden Luxembourg's base as a finance center

can be partly explained by the fact that the state's corporate tax income diminished in 1980 and was stationary in 1979. As much as 80 percent of Luxembourg's corporate taxes come from the banks.

Mr. Muehlen attributes the drop in income partly to the lack of profits by two of the biggest banks, the Commerzbank and Deutsche Bank. But the Deutsche mark's value has declined considerably against the dollar, and as much as 48 percent of the assets of the Luxembourg banks are held in marks. The U.S. dollar has, in fact, declined in Luxembourg banks from 45 percent to 37 percent of total assets. The major West German banks have been particularly hit by unprofitable roll-over loans.

In contrast, Mr. Muehlen pointed out, the smaller West German banks have had improved profits, and the Scandinavian and domestic banks have done well. Spreads on loans have been pared to the

bone, but he stressed that this was not a problem unique to Luxembourg. The consolidation of banking sheets that the West German government plans is also not felt to be a source of major concern. Some West German banks have already started publishing consolidated accounts, and it might prove a problem only for the smaller banks with weaker capital reserves.

The generally declining interest in Luxembourg shown by the U.S. banks is attributed to a misunderstanding on their part. "When the U.S. banks came, they thought they could find the business here and were disappointed when they realized that they had to bring it with them," Mr. Schaus said. Indeed, part of the reason why the West Germans or Scandinavians are on the whole doing well is that they provide a service for their corporate clients at home. "Credit for non-banking clients is a field which is more developed in Lux-

embourg than anywhere else," Mr. Muehlen said. The U.S. banks decided London was cheaper and their corporate clients could more easily be served from there.

"In the next 10 years, we hope to provide the legislation and infrastructure to encourage the banks to diversify, to build up the role of investment funds and other parbanking activities," Mr. Muehlen said.

The view from the Banking Commission is slightly different: "As long as there are international deficits to be financed, the Euro-markets are certain to exist for years and years. And the future of Luxembourg depends in part on the future of the Euro-markets. There is no question [of the markets disappearing] but there will be fluctuations in profitability as we have seen last year," Mr. Schaus said.

— JASPER BECKER

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### GEOGRAPHIC ORIGIN OF BANKS IN LUXEMBOURG\*

Period	Number of banks	Luxembourg	West Germany	France	Italy	Switzerland	Scandinavia	United States	Japan	Other Countries	Multi-national Joint Ventures**
1970	37	14	3	4	-	4	-	7	-	2	3
1971											
June	40	14	4	4	-	5	-	7	-	3	3
Dec.	43	14	6	4	-	4	-	8	-	3	4
1972											
June	48	14	10	4	-	4	-	10	-	3	3
Dec.	51	14	12	4	-	4	-	8	-	3	4
1973											
June	63	14	16	4	-	3	1	14	-	3	7
Dec.	70	14	16	4	-	4	2	16	1	5	8
1974											
June	76	14	16	4	1	4	2	15	2	7	11
Dec.	76	13	16	5	1	4	3	15	2	7	10
1975											
June	75	12	16	5	1	4	3	15	2	7	10
Dec.	76	12	16	5	1	5	3	15	2	7	10
1976											
June	76	12	16	5	2	6	4	13	2	7	9
Dec.	78	12	15	5	2	6	8	12	2	7	9
1977											
June	88	11	20	6	3	6	9	12	3	8	10
Dec.	90	12	20	6	3	6	10	13	3	8	9
1978											
June	94	12	24	6	4	6	11	12	3	8	8
Dec.	97	12	24	6	4	6	13	12	4	8	8
1979											
June	107	12	27	6	5	6	14	12	4	12	9
Dec.	108	12	28	6	5	6	14	11	4	12	10
1980											
June	109	12	29	6	5	7	13	10	4	12	11
Dec.	111	12	29	6	5	7	13	11	4	12	11
1981											
Feb.	112	12	29	6	5	7	14	11	4	12	12
June								9			

\* Number of banks listed by the country of origin of the majority of the shareholders.  
\*\* Banks in which no shareholder or group of shareholders of the same nationality hold more than 50 percent of the capital.

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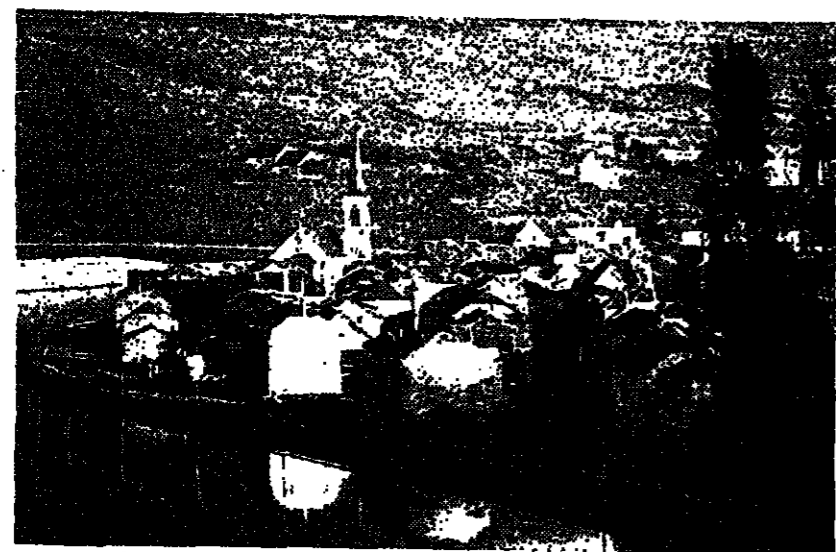
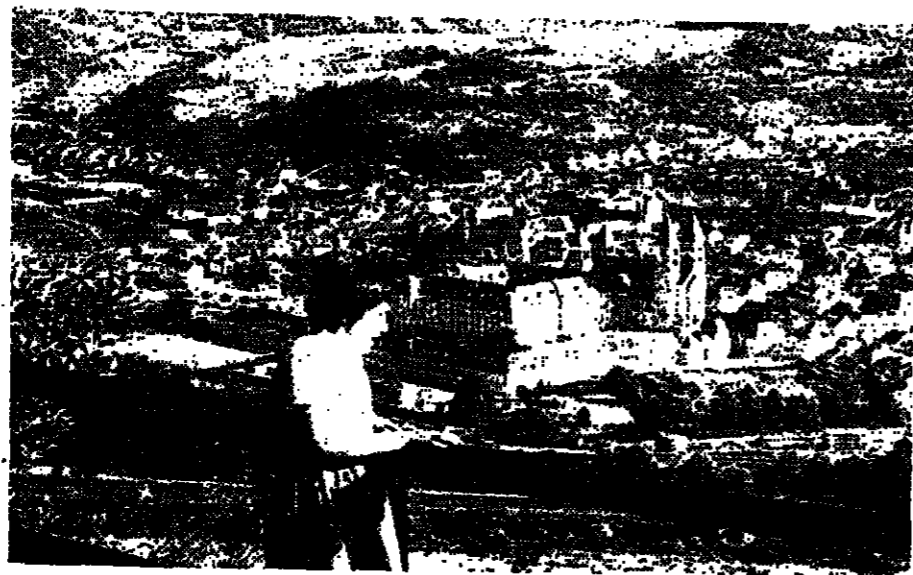
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TIME OFF

Clockwise, from right: A young hiker stops at a site overlooking Echternach; the Echternach Basilica; the Sure winds through Esch in the Luxembourg Ardennes; and vineyards form backdrop for Machstum on the Moselle.



Seeing Sights Is No Problem: They're All Nearby

THE GRAND Duchy of Luxembourg, with its 1,000-square-mile area, is like one of those small museums that may not have an extensive collection of anything but have quite a few nice paintings, and you leave satisfied that you saw the whole thing without being exhausted.

By car, bus, train or a combination, the country can be seen in a leisurely weekend. On foot, of course, it would take longer but the country does claim to be the densest in the world in walking paths and hiking trails.

Heading east from the city of Luxembourg, the Moselle River, which is the German border, is less than an hour away. This is the wine country with vineyards covering both banks. The wineries are often open to the public. They are located in tiny medieval villages that periodically hold wine fes-

tivals and tastings initiated with oom-pah-pah bands and speeches.

The town of Echternach has a wine museum in a restored winery where antique tools are displayed, demonstrations presented and samples offered.

**Rebuilt Town**

Follow the Moselle to the Sure and continue along the German border to the town of Echternach. Although, with the exception of the 15th-century town hall, the town was destroyed at Christmas-time, 1944, it was rebuilt after the war with meticulous detail. Paints were developed to match local pastel sand colors that centuries ago had indicated the trade of the occupants.

Under the Basilica, vaults and passages dating to the seventh century were discovered. When excavators started clearing K-ration

By car, bus, train, or a combination, the country can be seen in a leisurely weekend. And it claims to be the world's densest in walking paths and hiking trails.

Our and up the Our (or keep going up the Sure) to reach the dramatic gorges and cliffs of the Desling, as the Luxembourg part of the Ardennes forest is called. In Vianden, the government is restoring a medieval castle.

**Hunting Ruins**

This is an area for wandering. The ruins of castles appear hauntingly on high cliffs over river tributaries. The forest is rich in game. The rivers have trout and pike. For the fly fisherman, insects are hatching at this time of year and

the trout can be seen rising and circling in pools like goldfish in a garden pond.

Some hotels in the area own river rights but the Luxembourg fishing regulations are complicated, and advance information from the Administration of Water and Forests (P.O. Box 411 Luxembourg) is helpful.

The most surprising thing about the Grand Duchy is that each of these things is a matter of minutes from the next, and even if you end up camping or fishing in the wilds of the Ardennes, on Sunday night you are less than an hour from the city.

— MARK J. KURLANSKY

Monetary Role Is Expanding

IT MAY BE merely symbolic but the renegotiation of the Belgian-Luxembourg economic union (UEBL) has given the junior partner the right to alter the parity of the Luxembourg franc with the Belgian franc and to take part in the decisions of the Belgian central bank.

The change will be embodied in the creation of a financial body in Luxembourg with many of the characteristics of a central bank. Called the Institut Monétaire Luxembourg, it will gather under one roof functions presently carried out by the Finance Ministry, the Banking Control Commission, the statistical office and the Caisse d'Épargne.

What is perhaps a stronger indication of the weight that Luxembourg has in international finance

the Luxembourg franc would become a football for speculators.

The government hopes to pass the legislation setting up the Institut next year. A Banking Commission official, Paul Zimmer, said, "It will not dramatically change our position. The Institut will chiefly supervise the domestic situation and act as an intermediary between the Luxembourg banks and the Belgium central bank."

There are fears, however, that it might lead to a real central bank that would want to control the Eurobanks' solvency ratios and control the money supply, thereby endangering Luxembourg's status as an offshore banking center.

In the immediate future, the ef-

fect is that Luxembourg can issue larger banknotes of 500, 1,000 and 5,000 francs. These and the existing banknotes are only valid in Luxembourg, while the Belgian franc is valid everywhere. Only 4.5 percent of the 640 million francs in circulation in the Grand Duchy are Luxembourgian.

The Banque Internationale a Luxembourg issues its own notes, as does the state savings bank under the direction of the Belgian national bank. The BIL's privilege goes back to 1856, when it was founded concurrently with the savings bank. The right to issue notes is shared in Europe only with the Bank of Scotland.

— JASPER BECKER

A new institution will centralize a number of monetary functions and permit the nation to play an active part in the EMS and the IMF.

is that the Institut will be able to take part in meetings of the European Monetary System and the International Monetary Fund instead of being there with observer status.

The UEBL has now been renegotiated for the second time. But it has been such a success that it is not too fanciful to say that it has served as a model for European integration. Until the extension in March, Luxembourg had no direct say in the decisions of the Belgian national bank even though the Belgian franc's fluctuations affected the Luxembourgian currency and Belgium's economy is in a far worse state than Luxembourg's.

Now, in theory, the Luxembourg franc could be independent in the European Monetary System, or could attach itself to the Deutsche mark. But Ernest Muehlen, the secretary of state for finance, dismisses this possibility and points out that independence is merely theoretical. "The Belgian franc is not going to devalue," he said, "and for us to go it alone would be disastrous." The Institut has no powers of intervention, so

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May 1981





Volker Burghagen

Ernest Muehlen

Edmond Israel

## Men at the Top: Driving Forces, Linguistic Leanings

AS ONE OF the most senior of the Luxembourg bankers, Albert Dondelinger shows breezy good spirits that belie the authority his voice carries in Luxembourg banking circles. As chairman of the oldest commercial bank in the Grand Duchy, his career has had a surprisingly international flavor. After gaining a doctorate in law at the Catholic University of Louvain in Belgium, he served a spell with both the World Bank and the International Monetary Fund.

Since then he has at various stages held nearly all possible public offices connected with banking in Luxembourg: banking control commissioner, chairman of the Luxembourg Bankers Association, adviser to the finance minister, among other things. As a spokesman for Luxembourg in international forums, Mr. Dondelinger has taken part in North-South discussions and has served on the Governor's Committee of the EEC Central Bank and the IMF Interim Committee.

"I have the impression that the international situation is under control," he said, expressing his cautiously optimistic view as the Polish debt rescheduling crisis fades from the news.

He said that, while 1980 was a special year, the very high profits of the 1970s are not likely to return. As chairman of the Banque Internationale a Luxembourg he can have few complaints after his highly successful year.

"I never wanted to become a banker but a professor of linguistics and philosophy," Edmond Israel said with a smile. Nonetheless, he has spent more than 30 years with the Banque Internationale a Luxembourg. In addition to being one of its directors, he is also a director of the Luxembourg stock exchange and the chairman of



Remy Kremer

CEDEL, the international bond clearinghouse.

Mr. Israel finished his education abroad at the University of Montpellier in France. Having witnessed Luxembourg's rise as a financial center, he is in a good position to comment on its present situation, which he sees as a phase of consolidation.

He was one of the driving forces behind the creation of CEDEL, which is based in Luxembourg, but he says he is surprised at the clearing system's success.

At 53 Remy Kremer is, like many of the leading figures in Luxembourg banking circles, comparatively young to be the managing director of one of the most successful and oldest domestic banks. Un-

der his leadership the Banque Generale du Luxembourg is continuing to expand, and a difficult year has not prevented the bank turning in a sizable profit.

For Mr. Kremer a doctorate in law has proved an ideal qualification for a banking career. Having started at the Banque Generale in 1954, well before the Euromarkets sprang up, he has seen the bank grow from a modest retail bank to a universal one.

"The international banks brought the business here. Without them we would never have thought in the same volumes," he said. Part of the attraction was the Luxembourg Bourse, and Mr. Kremer is its administrator and a former president.

Mr. Kremer was one of the movers behind the attempt to set up the computerized bond-dealing system, Eures. It folded this year, but Mr. Kremer believes that the idea was good but the timing a little premature.

One of the first people a banker will meet if he is thinking of setting up an office in Luxembourg is the banking commissioner, Pierre Jaens. He must make sure that the bank is established and has solid resources, and the Banking Commission scrutinizes the bank's managerial staff as well.

At 45, Mr. Jaens is described by one of his colleagues as having the powers of a dictator, although these are hardly used. The control exercised is felt by the bankers to be sensitive and careful. In a small place like Luxembourg, relationships are on an amiable and friendly basis.

He was appointed commissioner in 1976 by the government after serving a spell as general-secretary to his predecessor and having gathered international experience at the Organization for Economic

Cooperation and Development in Paris and the Bundesbank in Frankfurt.

It is the task of the secretary of state for finance, Ernest Muehlen, to carry out the promise, made by the current government, to round off Luxembourg's financial profile. He is well-qualified for the task, having developed an insight into the financial operations in Luxembourg and outside as a financial journalist. He has, in fact, won a number of prizes, including the Benelux Journalist Prize of 1969.

He has also worked for many years at the European Commission. During the 1950s, he was the senior administrative officer of the European Economic Community's press and information department; later on, between 1968 and 1973, he dealt with cooperation between the European Commission and the European Investment Bank.

Mr. Muehlen conducted the negotiation of the economic union with Belgium. The Luxembourg franc could now be valued independently of the Belgian franc, but Mr. Muehlen stresses that this is a

theoretical option. Under his guidance, the administration of Luxembourg's finances and banking control will be merged under one roof as the Institut Monetaire.

One of the most outspoken figures among the foreign bankers in Luxembourg, Volker Burghagen has been looking after the Dresdner Bank's Luxembourg subsidiary since 1972. He has also helped to make the Compagnie Luxembourgeoise de la Dresdner Bank the most successful of the big three West German banks. The Dresdner has proved to be something of a pacemaker for the Germans as a whole.

Like all the bankers in Luxembourg, Mr. Burghagen speaks perfect English, which he needs in his other capacity as joint general manager of the Dresdner's New York Branch. Characteristically, like many of the bankers who have seen Luxembourg grow during the last decade, Mr. Burghagen identifies strongly with the place and speaks with some enthusiasm about its future.

—JASPER BECKER

## Japanese Maintaining a Low Profile

IN JAPAN there has been a gradual liberalization of restrictions on international banking. At the end of last year a new Foreign Exchange and Foreign Trade Control Law came into force, which liberalized foreign exchange transactions. But the Japanese banks are still hampered in their efforts to diversify funds abroad.

In Luxembourg, there are only four Japanese subsidiaries: The Taiyō Kobe Bank (Luxembourg), the Nippon (Luxembourg), the Bank of Tokyo (Luxembourg) and the Industrial Bank of Japan (Luxembourg).

Permission to open a new office abroad is strictly controlled by the central bank, which also influences the choice of location. The first Japanese bank arrived in December, 1973, and by the end of 1978, all four were in operation. Since then, others have considered the move but there are no indications as to whether they will go through with it. London is in many ways a more attractive possibility but many Japanese have already gone to Amsterdam and Brussels. Singa-

pore and Hong Kong are, however, usually looked upon as the first priority.

The Japanese banks are all here for quite different reasons, which depends on the structure of their network of other foreign subsidiaries and branches. said Yoshiro Nakanishi, the managing director of The Taiyō Kobe Bank (Luxembourg). His bank has offices in more than 20 foreign locations and recently opened a new branch in Singapore. The Luxembourg office still represents the bank's first subsidiary of this kind in Europe, however.

Overseas Assets  
Wherever they are, the Japanese banks seek both to service the needs of local Japanese companies and to raise money on the interbank market. The biggest Japanese banks have overseas assets that are now estimated at between 20 percent to 30 percent of their total. Their long-term overseas lending with fixed interest rates usually has to be supported by short-term borrowings from the Eurocurrency market. The Japanese banks in Luxembourg are looking after the interests of

Japanese companies in Europe, appreciate the nation's central position.

The subsidiaries are small, however. The Bank of Tokyo and the Industrial Bank of Japan are the largest, with each having total balance sheet assets in the beginning of last year of little more than 8 billion Luxembourg francs. After three years in Luxembourg, The Taiyō Kobe bank had in March assets of 7.5 billion Luxembourg francs and fully paid up share capital of 250 million.

The profitability of the Japanese banks in Luxembourg has so far not been as good as was hoped, although three of them have not been there long. The reasons generally cited for this are the volatile market and the fact that Japanese capital has been attracted to the high U.S. interest rates. Another difficulty is that the Japanese concentrate on lending and borrowing activities without having other business to fall back on. But this may slowly change — the gold market is being given serious consideration, for instance.

—JASPER BECKER

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### ASSETS

Cash and Banks 4,089,835,587  
Notes Receivable 7,295,583,628  
Loans & Advances 6,478,977,488  
Securities 208,784,625  
Fixed Assets 16,169,055  
Other Assets 794,774,093  
TOTAL ASSETS 18,884,124,476

### LIABILITIES

Deposits from Banks 13,992,900,388  
Customers Deposits 3,171,093,984  
Other Liabilities 605,421,465  
Capital 500,000,000  
Reserve & Provisions 547,245,111  
Profit 1980 after tax 67,463,528  
TOTAL LIABILITIES 18,884,124,476

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## Banking and Finance in LUXEMBOURG

### RTL Is Taking a Chance on Europe-Wide TV Satellite

IT TAKES a certain amount of courage to prepare to launch a satellite that might end up costing more than \$20 million when you are not even sure that you will ever be allowed to have an audience.

Radio-Television Luxembourg is in danger of finding itself in this position. The plan is for RTL to put a satellite in orbit with the help of either the U.S. space shuttle or the European Ariane that would give it a Europe-wide television audience.

The snag is not so much finding the money but getting the French and West German governments to agree to it, as their radio and television media are generally state-controlled. So far they have been firmly opposed. Expectations that there will be changes in the French media because of the Socialist victory do not yet extend to accepting commercial television on this scale.

Despite Luxembourg's appeal to its European Economic Community partners to show a European

*The snag is not so much finding the money but getting the French and West German governments to agree to it, as their radio and television media are generally state-controlled ...*

spirit, it is going to have to come up with something stronger if it is to overcome political opposition on this scale. It has some backing, however. The plan came from a decision in 1978 at the World Administrative Radio Conference to give the Grand Duchy five channels for direct satellite broadcasting.

#### Leading Network

RTL realized at that time that, if it was to build upon or even hold its position as the leading commercial broadcasting network in Eu-

rope, it had to muscle its way into satellite television.

At the moment it lays claim to being the most-watched station in Belgium and a large slice of northern France. As a radio station its reputation goes back 50 years. Today the radio has about 1.5 million listeners in Europe every night as it broadcasts from a villa in Luxembourg. RTL also has up-to-date studios off the Champs Elysees in Paris, which are producing television programs and audiovisual productions. Radio Luxembourg also broadcasts for German-

Dutch- and Italian-speaking audiences.

More than catering a weekly audience estimated at more than 40 million, RTL has its own symphony orchestra and has interests in publishing, film distribution and the national airline, Luxair. Therefore, RTL is a major employer and one of the biggest taxpayers. It also means that a lot is hanging on the outcome of the satellite project. Last year RTL made a net profit of \$27 million and paid taxes in one way or another amounting to \$46 million. This could well be swallowed up in the 10-year plan for the satellite. But the gains from reaching a potential audience of 80 million are attractive.

#### Media Policy

The idea has raised much opposition in West Germany, but it has been supported by some West German newspaper publishers. The Bundesverband deutscher

Zeitungsverleger are joining with Luxembourg to establish the Compagnie Luxembourgeoise de Telediffusion (CLT). This company will launch the satellite in which Radio Luxembourg has a 51-percent stake and the West German press 25 percent.

#### No Money on Table

The decision in March by the press was interpreted by the West German Social Democratic Party as a declaration of war against media policy. The newspapers see it differently. According to them, the balance between the commercial press and the state-owned radio and television companies is already distorted. And, since satellite television is bound to come anyway, they feel they might as well get in on it from the start.

But nobody has yet put any money on the table, and the earliest possible date for a satellite launching is 1985. Meanwhile, nobody is quite sure what sort of programs will be broadcast. Equally pertinent is the question of how the viewer will receive programs. Satellite television needs either a dish antenna on one's own roof or a cable from someone else's. In fact, what is imagined is a cable network, which would require a larger degree of governmental cooperation if it is ever to be laid.

For RTL, the decision to go ahead with the project is a calculated gamble — not only because the governments in question hold the power to pull the plug out of cable television now and at any time in the future but also because the programs might not reach a large enough audience to make it worthwhile.

— JASPER BECKER

### Struggle Over EEC Intensifies

WHATEVER the final decision is on the permanent site of the European Economic Community's institutions, there will be a lot of angry people and a number of luxurious offices and conference centers standing empty.

At the moment, the EEC's organizations are distributed in three cities, Brussels, Luxembourg and Strasbourg, but the EEC treaties state that these sites are only provisional. In the meantime, a considerable amount of money has been invested in duplicating buildings and infrastructures to accommodate EEC civil servants and parliamentarians.

The European Parliament has set itself the task this month of deciding where it wants to be based. The EEC treaties in fact stipulated that the final decision of the site of the Community's institutions rests with the governments of the member states. At the last summit meeting in the Netherlands, the EEC heads of state discussed but again failed to reach agreement on the issue.

The Parliament now has an impressive new building close to the European Commission in Brussels, where committee meetings are held and part of the secretariat's work handled. It also has offices and a hemicycle borrowed from the Council of Europe.

According to EEC agreements, the Parliament's secretariat is to be located in Luxembourg. And in order to lure the plenary meetings away from Strasbourg, Luxembourg built a hemicycle alongside the other buildings at Kirchberg. It

*The Grand Duchy has invested a lot, and the outcome is uncertain ...*

was completed last year at a cost of 1.2 billion Luxembourg francs but has rarely been used, and the Luxembourgers suspect that it will never again be used, at least for the Parliament.

#### Economic Impact

In a country as small as the Grand Duchy, the presence of the Parliament and other institutions is more than a question of prestige. The well-paid employees have an impact on the Luxembourgian economy. The EEC employs 6,500 people in Luxembourg, who work for the European Court of Justice, the Court of Auditors, the European Investment Bank, the Statistics Office, the European Parliament and the Commission itself.

Many of them like Luxembourg, where they do not pay income taxes and get luxury goods free of value-added tax. The non-Luxembourgian officials and their families number 10,000, and about an additional 7.3 billion Luxembourg francs of buying power to the economy. In return for this, the state is spending 10 billion Luxembourg francs out of its 1981 budget on measures to enable the city to accommodate the EEC's institutions.

The EEC buildings, concentrated on a plateau three kilometers outside the city of Luxembourg, were opened in 1966. The Kirchberg Plateau is linked to the city

by a metal bridge and a fast highway. Scattered around this verdant field are modernistic steel and glass structures. Like most of the buildings, the new hemicycle is an impressive piece of well-designed modern architecture. It is constructed as a series of terraces leaning against the slope of one of Luxembourg's ravines and is equipped with every conceivable facility.

Despite this, the parliamentarians are not enthusiastic about making it their permanent home. Nor are they content with their present lifestyle, which has come to resemble that of a traveling circus. Traveling with them from Brussels to Luxembourg to Strasbourg are a large group of staff and a mountain of documents in each Community language.

The parliamentarians have become accustomed to holding their assemblies in Strasbourg, which was initially chosen because it had a chamber large enough to accommodate all its members. And, in all fairness, it must be said that Strasbourg is generally regarded as the prettier town, with a historical tradition of being the link between Germany and France.

Many parliamentarians favor Brussels because it is the true seat of the EEC's power. The Council of Ministers and the Commission are based in the Belgian capital, as well as nearly all the lobby groups. But Brussels has yet to build a chamber large enough to accommodate the 510 members of the Parliament. The possibility of building a hemicycle for the Parliament is being discussed but no decision has been made.

— JASPER BECKER

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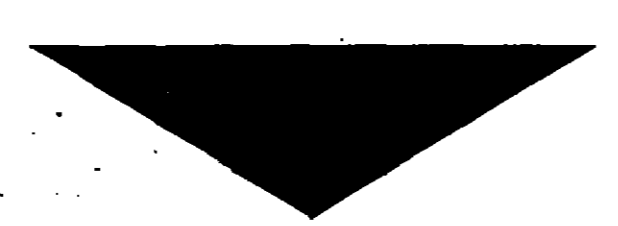
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### Small Town Puts Festival On the Map

ECHTERNACH, a small town on the Sure River in the heart of a hilly region sometimes called the little Switzerland of Luxembourg, has been trying since the 1930s to create an annual music festival of international standing. In its eighth consecutive year, the festival is achieving that goal.

Jointly sponsored by Echternach and the city of Luxembourg, the festival, which has events in both locations, is presenting 34

Thirty-four concerts of classical music and four days of jazz are being presented in this year's event. The participants range from Mstislav Rostropovich to Dizzy Gillespie.

classical concerts and four days of jazz. It is taking place this month and runs through July 19.

Cellist Mstislav Rostropovich and his wife, singer Galina Vishnevskaya, performed Russian songs; Rostropovich will do an evening of Bach in July; guitarist Alexandre Lagoya performed Spanish pieces; the Berlin Chamber Music Ensemble will do an evening of Mozart and another of Haydn; pianist Vladimir Ashkenazy performed Beethoven and Chopin sonatas; violinist Yehudi Menuhin will do Brahms, Barok and Beethoven; and the chorus of Milan's La Scala will sing Rossini. The jazz will include Dizzy Gillespie and Sarah Vaughan.

Less celebrated artists will also be featured, including some young, relatively unknown names such as French flutist Jean-Charles Candido and Korean violinist Dong Suk Kang.

A mainstay of the festival is 30-year-old



Cyprien Katsaris, musical director since 1978.

French pianist Cyprien Katsaris, who has in recent years been acclaimed by the European press. Mr. Katsaris has been musical director since 1978 and has been credited with bringing in some of the names that have given the festival stature, such as Isaac Stern, Nathan Milstein, Pinchas Zukerman and Benny Goodman.

The town of Echternach is considered one of Luxembourg's major attractions, with the seventh-century abbey of St. Willibrod, which produced some of Europe's most-prized illuminated manuscripts.

The concerts are given in three places. Seating capacity for 1,300 persons is arranged in the Basilica at Echternach. This building has underground portions going

back to the seventh century, and 12th-century frescoes are visible on some walls.

Chamber music is performed in the Church of Saint Peter and Paul with a 400- to 500-seat capacity. This church, thought to be the oldest in the country, is a fascinating combination of Roman and Gothic styles with modern stained-glass windows. All of the jazz and some of the classical concerts are performed in the city of Luxembourg at the Theatre de la Ville.

Tickets cost between \$10 and \$20. With the reputation of the festival growing, the earlier boast that tickets were always available, even for top name performers, is no longer true. Artists such as Menuhin and Ashkenazy were sold out well in advance.

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# Growth of Euromarkets Is Lifting BIL Out of Its Provincial Limitations

IT HAS TAKEN a while for the Banque Internationale a Luxembourg (BIL) to live up to its name. The bank has just celebrated its 125th birthday, but it is only in the last 20 years or so that it has managed to be active internationally.

The advent of the Euromarket has lifted the BIL and other domestic banks out of the provincial restriction that Luxembourg's size forced upon them.

In 1856, the BIL was launched with an initial capital that was 50 times greater than the country's business could possibly need. Permission to establish the bank was granted by a grand ducal decree. With the decree went the right to issue its own money, which the BIL still does, sharing the privilege with the Caisse d'Epargne de l'Etat du Grand-Duché de Luxembourg, also founded in 1856.

Tradition is a fine thing, but what has made both these banks stand out is their ability to match the opportunities offered by Luxembourg's new role as an international financial center. The Caisse d'Epargne holds fifth place in balance sheet size, and the BIL is seventh among the 112 banks in Luxembourg — a not insignificant achievement in view of the number of banks competing for the domestic business.

and the Banque Generale du Luxembourg, set up by the Societe Generale de Banque, predates even the 1922 economic union with Belgium. They rank 12th and ninth, respectively, in total balance sheet size.

There are 12 Belgian or Luxembourgian banks, and the three largest have a total of 178 branches between them serving a country with a population of 360,000, so it can probably be said that the Luxembourgers are not underbanked. But the stimulus that the Euromarket has given the domestic banks has encouraged them to expand abroad. The BIL has opened representative offices in New York and Singapore to attract some international business in Southeast Asia and North America. The Banque Generale has representative offices in Milan, Mexico City and Hong Kong.

With a few exceptions, the domestic banks are universal banks taking full part in the Euromarket business, and so are indistinguishable from the foreign banks. The Caisse d'Epargne, a sort of embryonic central bank (the central bank went bankrupt more than 100 years ago), is a tough competitor on the domestic front.

Because it can take advantage of a state guarantee for savings deposits, it can lend at a much cheaper rate than the BIL or the Banque Generale. While the commercial rate in Belgium has fluctuated around 16 percent, the Caisse d'Epargne has been able to offer 8 percent or 9 percent. This state of events, together with the Caisse d'Epargne's other fiscal and legal advantages, led to such an outcry that a few weeks ago the government finally decided to put matters right, by making the Caisse follow the commercial interest rate.

The risk capital needs of the Luxembourgers are now also covered by the Societe Nationale de Credit et d'Investissement (SNCI). The SNCI was set up in 1977 to finance improvements in the structure of the Luxembourg economy. Capital is now readily available for modernization, diversification, export financing and new ventures. Last year, the investment bank benefited from a second global



Albert Dondelinger

satellite, which over 10 years could cost 10 billion Luxembourg francs.

The government is proposing to increase its revenues with a special increase in unemployment insurance contributions in order to pay for ARBED, which, although better off than some European steel-makers, is having problems. Steel exports have dropped 4 percent in volume and prices have remained low. ARBED plans to invest 4 billion Luxembourg francs a year until 1983.

Although 1981 will probably be as bad a year for the Luxembourg economy as 1980 was, the domestic banks have been doing well. Like all the banks, they have been hit by the low spreads and the need to make provisions for the drop in the value of their long-term bonds.

Loans by Luxembourg banks increased by 34.6 percent between 1979 and 1980, from 918 billion Luxembourg francs to 1,236 trillion. The domestic banks contributed to this increase. The BIL managed 10 Euroloans and took part in 154 others, and the Banque Continentale du Luxembourg increased its loan volume by 7,794 billion Luxembourg francs to 29,917 billion. Even the Caisse d'Epargne kept its end up by managing 10 syndicated loans.

Balance sheet growth has also been maintained. The Banque Generale du Luxembourg increased its balance sheet total by 31 percent from 93 billion Luxembourg francs to 123 billion. Profits have risen from 224 million Luxembourg francs to 247 million.

**Subsidiaries**

The Banque Generale has set up subsidiary banks, Cofhylux and Cregelux, which have made appreciable profits. Cofhylux, with a balance sheet of 1,297 billion Luxembourg francs, produced a profit of 16.1 million.

The BIL's balance sheet total rose by 27 percent with an increase in deposits by non-bank clients from 58 billion Luxembourg francs to 79 billion. The BIL had less recourse to refinancing its loans with advances from other banks. Domestic and international lending increased more slowly than in previous years, growing only 16.1 percent, against the 28.2 percent of 1978-1979. Profits were 319 million Luxembourg francs, an increase of 10 percent.

The increase from depositors other than banks has been one of the chief surprises of the last year. Private customers placed 35 percent more than in 1979-1980. The new secrecy law governing banks has helped, but the French and the Belgians have always had a tradition of using Luxembourg as a tax haven. Nevertheless, Luxembourg has still to gain the reputation of Switzerland and its clientele.

The BIL's managing director, Albert Dondelinger, said, "What is clear is that the boom years of the '70s, with their very high profits, will never come again. Margins will remain low and risks high. In the years to come, profitability is sure to be lower but still good. We have had to make reserves for normal banking risks and during the good years I think we have made enough."

**Significant Changes**

The more cautious approach that the BIL is recommending comes after the bank has itself been the mover behind a number of significant changes among the domestic banks. It was given a major impetus in 1977 when it merged with the Luxembourg subsidiary of Banque Bruxelles Lambert. It has also become a major shareholder in the Banque Continentale du Luxembourg (60 percent), the Banque Nationale de Paris (40 percent), the Caisse Hypothecaire (96 percent) and Precilux (50 percent).

This success in gaining recogni-

tion abroad has been built on the chances offered by the establishment of a large part of the Euromarket in Luxembourg. The BIL now must consolidate these gains and try to achieve a significance outside Luxembourg.

This new assertive spirit was reflected when Luxembourg renegotiated the economic union with Belgium. The Luxembourgers gained the right to make the Luxembourg franc independent from the Belgian franc. The perennial threat of a devaluation of the Luxembourg franc has convinced the Luxembourgers that they ought to have the option of floating the Luxembourg franc by itself, or of linking it with another currency such as the Deutsche mark.

Another indication of the confidence that financial leaders are showing in their country's role in the banking world is the plans to establish the Institut Monetaire Luxembourgais. This is being pushed by the secretary of state for finance, Ernest Muhlen, for a number of reasons. It would tidy up the administration of finance by placing the Treasury, the Finance Ministry, the Banking Commission and certain parts of the state savings bank (Caisse d'Epargne de l'Etat) under one roof.

Critics see dangers, however. Without a central bank, as it is

now, Luxembourg cannot take part as a full member in the International Monetary Fund or other forums where central bankers meet. Although it is useful to join in decisions made there, critics say Luxembourg may be trying to be more than an offshore banking center — an offshore center cannot function with a central bank seeking to control the lending and borrowing of commercial banks.

— JASPER BECKER

## Financial Highlights

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	in DM million
Due from Banks	686
Loans	1037
Deposits	1679
Capital and Reserves	50
Total Assets	1752
Capital Funds	
as per April 81	74

**Management**  
Rainer Kühn  
Frederick R. Hopson, Treasurer  
Jürgen Völzer

**Dealing**  
Matthias Voigt  
Christopher Wood

**Helaba Luxembourg**  
Hessische Landesbank International S.A.

LUXEMBOURG	
<b>THE LAND</b>	
Area (sq. km)	2,586
Agriculture area, 1979 (sq. km)	1,304
Woodland, 1979 (sq. km)	820
Major city, inhabitants	
Luxembourg (October 1978)	79,600
<b>THE PEOPLE</b>	
Population (Jan. 1, 1980)	363,700
Number of inhabitants per sq. km	141
Population, net natural increase per 1,000 inhabitants in 1979	0.0
Net migration in 1979	1,400
Total employment (1979, thousands)	158.2
Agriculture	9.3
Industry	61.5
Services	87.5
Dependent employees	135.6
Employers, self-employed persons and domestic help	22.6
<b>PRODUCTION</b>	
Gross domestic product (1979)	
billions of francs	121.1
Gross domestic product per head, US\$ (1979)	9,762
Gross fixed investments:	
Percent of GDP (1979)	26.6
Per head, US\$ (1979)	2,592
Gross domestic product by origin, at market prices (1978):	
	Percent
Agriculture	3.2
Energy	2.4
Manufacturing	30.7
Construction	9.8
Other	53.9
<b>THE GOVERNMENT</b>	
Public consumption (1979), percent of GDP	15.6
Current government revenue (general government 1979)	
percent of GDP	56.5
Central government debt (Dec. 31, 1979) billion francs	24.6
Composition of the Chambers:	
	Percent
Christian Social Party	40.7
Democratic party	25.4
Workers Socialist Party	23.7
Communist Party	3.4
Social Democratic Party	3.4
Others	3.4

Source: OECD (March, 1981)

**Savings Bank Funds**

There has been a considerable drop in savings bank funds. Deposits at the BIL, Banque Generale and Caisse d'Epargne dropped 10 percent between 1979 and 1980 to 48 billion Luxembourg francs, and the domestic investors have shifted in a large way to one-month deposits.

The big domestic borrowers apart from the state are ARBED, the giant steel company, and RTL, Radio-Television Luxembourg. The state budget deficit reached a record 1.4 billion Luxembourg francs in a country that is used to budget surpluses. The 1981 budget provided for spending about 52 billion Luxembourg francs, up 12 percent from the year before because of the need for more industrial investment. RTL is now deciding whether to invest in a direct

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In order to be able to enhance our operations we increased our capital stock by DM 18,5 to 68,0 millions at the end of 1980. This brought our total capital funds to DM 174 millions.

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	1980	1979
4.015 Mio. DM	Balance sheet total	3.524 Mio. DM
1.757 Mio. DM	Volume of credit	1.137 Mio. DM
1.957 Mio. DM	Due from banks	2.067 Mio. DM
146 Mio. DM	Securities	214 Mio. DM
3.704 Mio. DM	Deposits	3.264 Mio. DM
174 Mio. DM	Capital funds	127 Mio. DM

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# Banks Operating in Luxembourg

## PUBLIC SECTOR BANKS

- Caisse d'Épargne de l'État du Grand-Duché de Luxembourg — Banque de l'État, 1 place de Metz.
- Société Nationale de Crédit et d'Investissement, 3 rue de la Congrégation.

## COMPANIES INCORPORATED IN LUXEMBOURG

- Aktivbank International S.A., 88 Grand-rue.
- Badische Kommunale Landesbank International S.A., 9 boulevard Roosevelt.
- Banco di Roma International S.A., 25 boulevard Royal.
- Banco di Santo Spirito (Luxembourg) S.A., 33 boulevard Prince Henri.
- Bank Handlowy International S.A. Luxembourg, 22-24 boulevard Royal.
- Bank MM. Wartburg-Brückmann, Wirtz International (Brückmann) S.A., 17 Cote d'Éich.
- Bank of America International S.A., 35 boulevard Royal.
- Bank of Boston S.A., 41 boulevard Royal.
- Bank of Credit and Commerce International S.A., 39 boulevard Royal.
- Bank Oppenheim Pierson International S.A., 19 Cote d'Éich.
- Banque Continentale du Luxembourg S.A., 9 boulevard Royal.
- Banque de l'Indochine et de l'Extrême Orient S.A., 10 rue Aldringen.
- Banque de l'Union des Coopérateurs Luxembourgeois S.A., 4 rue de la Reine.
- Banque de l'Union Européenne (Luxembourg) S.A., 25 boulevard Royal.
- Banque de Luxembourg S.A., 80 place de la Gare.
- Banque de Paris et des Pays-Bas pour le Grand-Duché de Luxembourg S.A., 10a boulevard Royal.
- Banque Générale du Luxembourg S.A., 27 avenue Montigny.
- Banque Norddeutsche S.A., 47 boulevard Royal.
- Banque Populaire Suisse S.A. Luxembourg, 39 rue Notre-Dame.
- Bayerische Vereinsbank International S.A., 25 boulevard Royal.
- Bayerische Vereinsbank International S.A., 17 rue des Bains.
- Bergen Bank International S.A., 88 Grand-rue.
- Berliner Bank International S.A., 50 route d'Esch.
- BIC: Luxembourg société anonyme, 17 rue de Fosse.

- BHF-Bank International, 88 Grand-rue.
- Caisse Hypothécaire du Luxembourg S.A., 69 boulevard de la Petresse.
- Canadian American Bank S.A., 33 boulevard Prince Henri.
- Chase Manhattan Bank Luxembourg S.A., 47 boulevard Royal.
- Christiania Bank Luxembourg S.A., 88 Grand-rue.
- Citibank (Luxembourg) S.A., 16 avenue Marie-Thérèse.
- Cofelyon — Compagnie Foncière et Hypothécaire du Luxembourg S.A., 14 rue Aldringen.
- Commerzbank International S.A., 11 rue Notre-Dame.
- Compagnie Internationale pour le Financement de l'Énergie Nucléaire, 22 boulevard Royal.
- Compagnie Luxembourgeoise de la Dresdner Bank AG — Dresdner Bank International S.A., 26 rue du Marché-aux-Herbes.
- Copenhagen Handelsbank International S.A., 37 rue Notre-Dame.
- Credit Europeen S.A., 52 route d'Esch.
- Credit Suisse (Luxembourg) S.A., 23 avenue Montigny.
- Cregilus — Credit General du Luxembourg S.A., 27 avenue Montigny.
- Den Danske Bank International S.A., 18 avenue Marie-Thérèse.
- Den norske Creditbank (Luxembourg) S.A., 35 boulevard Prince Henri.
- Deutsch-Scandinavisches Bank (Luxembourg) S.A., 15 rue Notre-Dame.
- Deutsche Bank Compagnie Financière Luxembourg, 25 boulevard Royal.
- Deutsche Girozentrale International S.A., 16 boulevard Royal.
- DG Bank International, 25 boulevard Royal.
- Discount Bank S.A., 52 avenue de la Liberté.
- East West United Bank, 10 boulevard Joseph II.
- Gotschebank (Luxembourg) S.A., 31 Grand-rue.
- Hansa Bank S.A., 25 boulevard Royal.
- Hauck Banquiers Luxembourg S.A., 6 boulevard Joseph II.
- HELABA Luxembourg — Hessische Landesbank International S.A., 4 place de Paris.
- Hypobank International S.A., 37 boulevard Prince Henri.
- Industriebank International S.A., 22-24 boulevard Royal.
- International Resources and Finance Bank S.A., 31 Grand-rue.
- International Trade and Investment Bank S.A., 22-24 boulevard Royal.
- Kansallis International Bank S.A., 25 boulevard Royal.
- Kredietbank S.A. Luxembourg-geoise, 43 boulevard Royal.
- Lanepbank International S.A., 25 boulevard Royal.
- Landesbank Rheinland-Pfalz und Saar International S.A., 6 rue de l'Antique Athènes.
- Landesbank Stuttgart International S.A., 1 Place d'Armes.
- Lavoro Bank International S.A., 25 boulevard Royal.
- Luxembourg Italian Bank S.A., 63 avenue de la Liberté.
- Manufacturers Hanover Bank Luxembourg S.A., 39 boulevard Prince Henri.
- Nord/LB Norddeutsche Landesbank Luxembourg S.A., 29 avenue Montigny.
- FK Banken International (Luxembourg) S.A., 47 boulevard Royal.
- Privatbanken International (Denmark) S.A., 16 boulevard Royal.
- Provisiobanken International (Luxembourg) S.A., 25 boulevard Royal.
- Schroeder, Muenchmeyer, Hengst International S.A., 25 boulevard Royal.
- Skandinaviska Enskilda Banken (Luxembourg) S.A., 16 boulevard Royal.
- Svenska Handelsbanken S.A., 37 avenue Montigny.
- Société Bancaire et Financière S.A., 55 boulevard Royal.
- Société de Banque Suisse (Luxembourg) S.A., 43 boulevard Prince Henri.
- Société des Banques S.G. Warburg et Leu, 22 rue J.P. Buisson.
- Société Européenne de Banque S.A., 25 boulevard Royal.
- Société Luxembourgeoise de Banque S.A., 15 avenue Emile Reuter.
- Svenska Handelsbanken S.A., 37 avenue Montigny.
- The Bank of Tokyo (Luxembourg) S.A., 22-24 boulevard Royal.
- The Industrial Bank of Japan (Luxembourg) S.A., 5 boulevard Royal.
- The Nikko (Luxembourg) S.A., 88 Grand-rue.
- The Taiyo Kobe Bank (Luxembourg) S.A., 33 boulevard Prince Henri.
- Trade Development Bank (Luxembourg) S.A., 34 avenue de la Petresse.
- Trinks & Burkhardt (International) S.A., 14 boulevard Emmanuel Servais.
- UBAE Arab German Bank, 22-24 boulevard Royal.
- Union Bank of Finland International S.A., 25 boulevard Royal.
- Union de Banques Suisses (Luxembourg) S.A., 36-38 Grand-rue.

- United Overseas Bank (Luxembourg) S.A., 8 boulevard Royal.
- Vereins und Westbank Internationale S.A., 25 boulevard Royal.
- West LB International S.A., 32-34 boulevard Grande-Duchesse Charlotte.
- Westfalenbank International S.A., 31 boulevard Prince Henri.

## COOPERATIVES AND AGRICULTURAL ASSOCIATIONS

- Caisse Centrale des Associations Agricoles Luxembourgeoises, 28 boulevard Royal.
- Fortuna, société coopérative de crédit et d'épargne, 128-132 boulevard de la Petresse.

## FOREIGN BRANCHES

- American Fletcher National Bank (of Indianapolis), 40 boulevard Joseph II.
- Banco di Roma per la Svizzera (of Lugano, Switzerland), 41 boulevard Royal.
- Bank Hapoalim B.M. (of Tel Aviv), 16 boulevard Royal.
- Bank of China (of Peking), 9-11 Grand-rue.
- Banque du Gothard S.A. (of Lugano, Switzerland), 41 boulevard Royal.
- Bank Hapoalim (Suisse) S.A. (of Zurich), 16 boulevard Royal.
- Banque Privée S.A. (of Geneva), 20 boulevard Emmanuel Servais.
- Bausparkasse Gemeinschaft der Freunde Wüstnrot gemeinnützige GmbH (of Ludwigshafen, West Germany), 25 boulevard Royal.
- Beamteneinstellungswerk Gemeinnützige Bausparkasse fuer den öffentlichen Dienst, Gesellschaft mit beschränkter Haftung (of Berlin/Hannover, West Germany), 4 boulevard Royal.
- Credit Industriel d'Alsace et de Lorraine S.A. (of Strasbourg), 103 Grand-rue.
- Credit Lyonnais (of Lyons), 36a boulevard Royal.
- Discount Bank (Overseas) Ltd., (of Geneva), 52, avenue de la Liberté.
- European American Banking Corp. (of New York), 31-35 boulevard Prince Henri.
- Israel Discount Bank Ltd. (of Tel Aviv), 52 avenue de la Liberté.
- Northwestern National Bank of Minneapolis, 33 boulevard Prince Henri.
- Philadelphia National Bank, 14 rue des Bains.
- Société Générale Alsacienne de Banque S.A. (of Strasbourg), 15 avenue Emile Reuter.
- The First National Bank of Boston, 41 boulevard Royal.

# Banking and Finance in LUXEMBOURG

## Grand Duchy Resists Increasing Pressure

By Craig Anderson

**BANKS FROM EUROPE** and Luxembourg as an offshore banking center and, during the last decade, the nation has become an important center for the Eurocurrency market. But moves are under way at national levels and at the European Commission in Brussels that could greatly hurt Luxembourg in international banking.

The main characteristic of the 20 or so other offshore banking centers around the world is the absence of corporate tax on bank profits. Not so with Luxembourg. With a corporate tax rate standing at a relatively high 48 percent, total taxes on a bank's earnings in the Grand Duchy can amount to well above 50 percent. Nevertheless, in the last 10 years, banks from West Germany, Switzerland, Scandinavia and the United States have come to Luxembourg to take advantage of some particular feature of the country's banking legislation.

Restrictive banking rules at home also have persuaded banks from Switzerland and the Nordic countries to set up shop in Luxembourg. The Swiss authorities clamped down on international capital transactions several years ago, forcing many Swiss banks to look for new ways to channel their funds outside the country. By far the major part of Swiss business now carried out in Luxembourg is the directing of fiduciary funds toward local money markets. The Scandinavians, too, faced with restrictions on international financing for domestic clients, decided that Luxembourg offered the advantages they were seeking.

Although noted mainly for business on the international markets, the Grand Duchy is also important in retail banking. Belgian customers have found Luxembourg a refuge from the tax inspector because of its rules on banking secrecy.

During the last year or so, there has been a dramatic slowdown in

THE CURRENCY	
Monetary unit	Luxembourg franc
Currency units per U.S. dollar,	29.253
average of daily figures: 1980	32.279
Feb. 1981	38.65
June 1981	Source: OECB

the number of banks seeking authorization from the Banking Commission to set up offices. One reason for this is the change in the climate for international banking. Many banks have seen profits plummeting in the last two years because of fluctuations in exchange rates and a narrowing of lending margins in international transactions. Furthermore, there does not seem to be much chance that the problems will disappear as both the European Economic Community and various national governments are now working on measures that would tighten supervision on foreign banks in the Grand Duchy.

EEC banking rules have not had any major effect until now on banking in Luxembourg because they have concentrated on making it easier for banks to set up and carry out business in other EEC countries. But the long-term aim of the European Commission in Brussels is to harmonize banking regulations throughout the EEC, and a central part of this strategy is to increase the transparency of bank activities.

A proposal for aligning the annual accounts of banks was made earlier this year by the European

Commission, and this should be followed — although probably not for a couple of years — by a more important draft directive aimed at forcing EEC-based banks to consolidate their accounts. Such a measure would throw open the books of most of the foreign banks with operations in the Grand Duchy, and the Luxembourg delegation at the EEC would be unlikely to support such a move. Reports of progress on a similar proposal for ordinary companies have been accompanied by allegations of foot-dragging by officials from the Grand Duchy.

Moves being considered in a number of European countries might not be so slow to take effect. The West German Bundesbank has been pressing during the last few years for increased regulation of the Eurocurrency market, particularly in Luxembourg.

The popularity of the Deutsche mark in Eurocurrency transactions and the unprecedented upsurge in business on the Euromarkets can cause problems for the West German central bank in its efforts to control the money supply, regulate interest rates and control inflation. Therefore, the Bundesbank is examining the possibility of altering

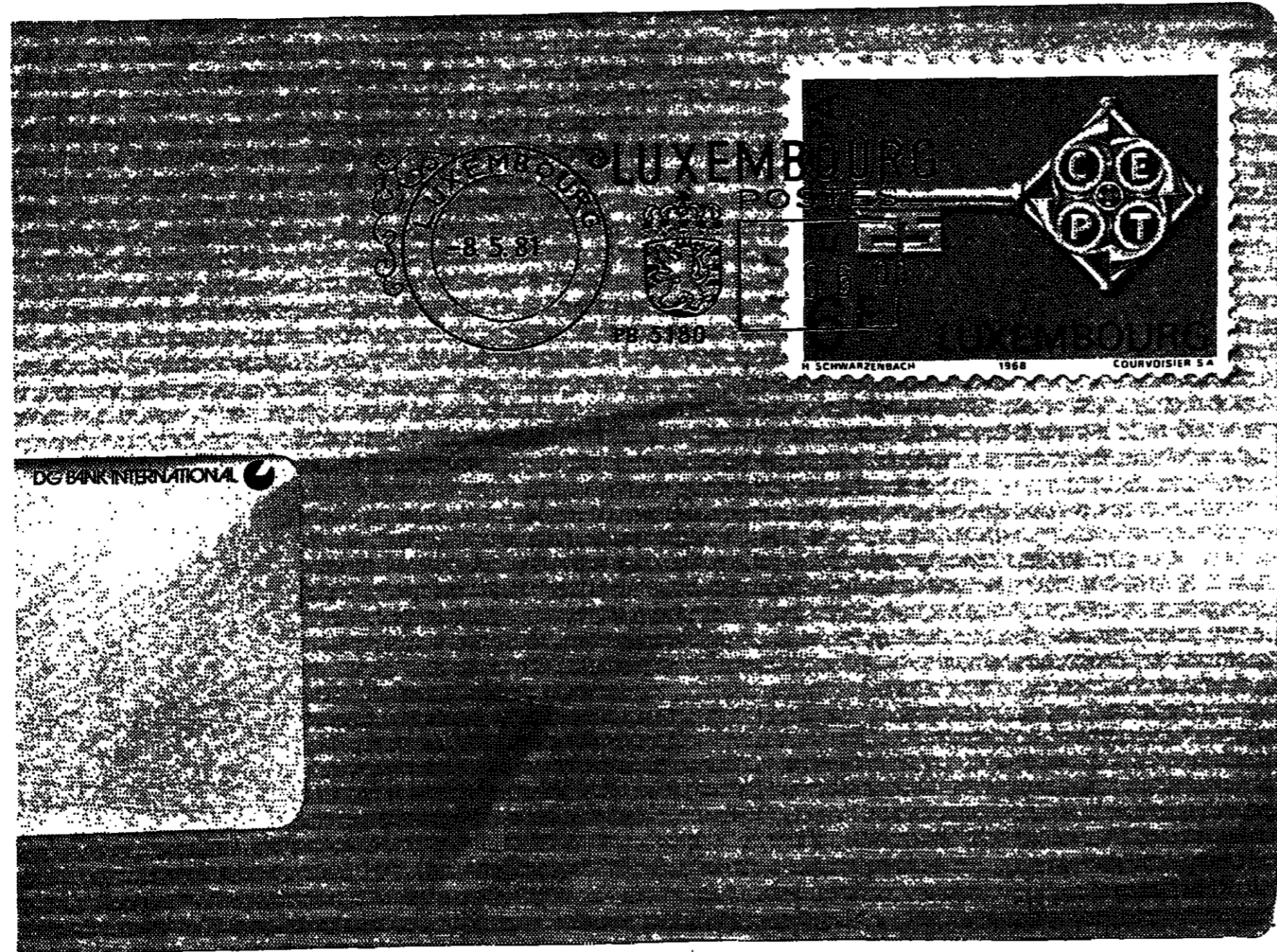
West German credit laws in a way that would force banks to consolidate their accounts. Subsidiaries would then be subject to the same credit ratios as the parent company, which would require West German banks to make considerable cash injections into their Luxembourg subsidiaries.

Similar moves are being considered by Switzerland and, with Swiss capital ratios far less generous than those in Luxembourg, many Swiss banks in the Grand Duchy could be forced to reduce substantially their operations on the money markets.

Concerned by these trends, Luxembourg is trying to increase the range of financial activities it can offer. A key move was the abolition in 1979 of the value-added tax on gold transactions. Several months later, when frenzied activity in gold dealing caused Switzerland and West Germany to raise their taxes on the metal, Luxembourg's position in the gold market was considerably strengthened. The country has had its own gold fixing since March, 1981, and, although it is far from being a major trading center, business is increasing.

The boom for Luxembourg banking is certainly over, as most of the banks likely to consider moving in have already done so. Regulations imposed outside the Grand Duchy may even force some banks to leave. Nevertheless, Luxembourg is determined to hold on to the benefits brought by the influx of foreign banks.

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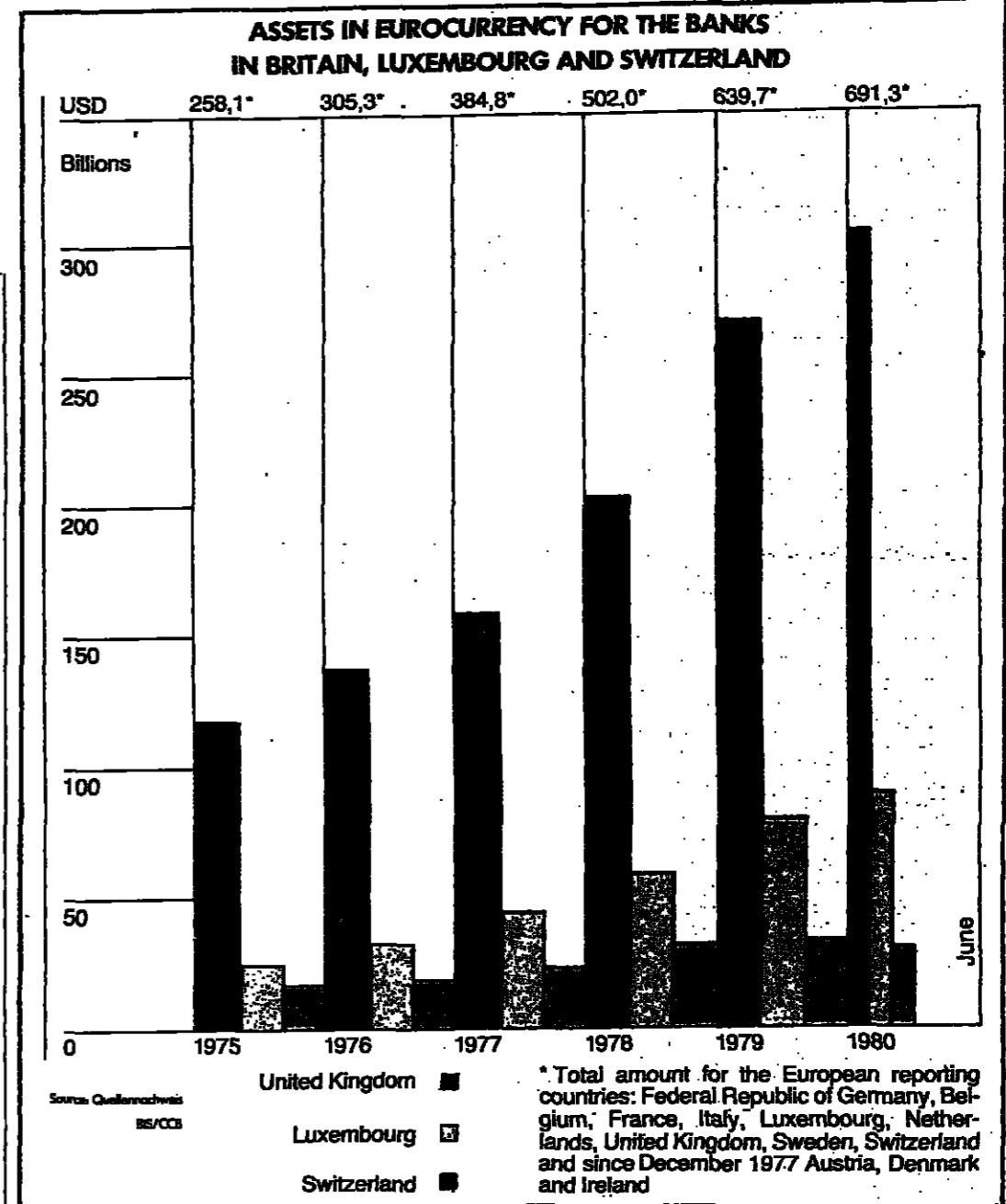
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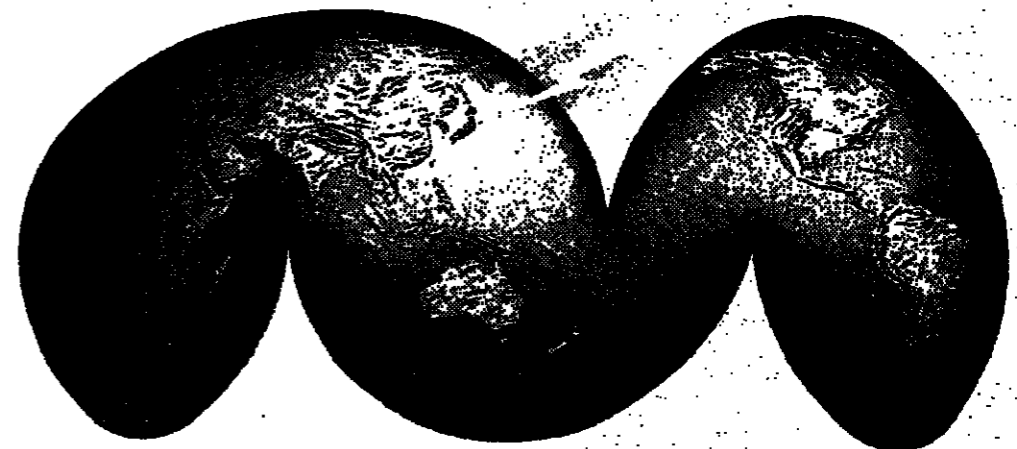
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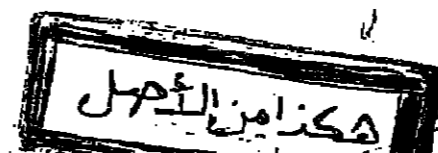
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**BUSINESS NEWS BRIEFS**

**AMC Says New Jeeps to Appear on Schedule**

DETROIT — American Motors Corp. insists its plan to introduce a light-weight, fuel-efficient line of Jeep vehicles in the 1983 model year is on schedule.

AMC on Monday described as "untrue and misleading" a report in a metal trade publication that the program has fallen at least six months behind schedule. The Metalworking News edition of American Metal Market said the delay was caused by cash shortages.

The AMC statement said, "There is no problem restricting introduction of the vehicles on schedule." AMC, which is 46-percent-owned by France's Renault, also plans to introduce a small, front-wheel passenger car along with the new Jeep vehicles.

**Telefunken Expects to Trim Losses in 1981**

WEST BERLIN — AEG Telefunken expects its losses in 1981 to be narrower than the 1980 deficit of 278 million Deutsche marks posted by the domestic group. Managing Board Chairman Heinz Duerr said Tuesday.

He told the annual meeting that the group is not yet "out of the woods." Turnover and order levels are expected to rise this year, although at a slower rate than in 1980, with the majority of the increases coming from abroad.

**Japanese Vehicle Production Fell in May**

TOKYO — Japanese vehicle production fell 1.3 percent to 894,554 units in May from a year earlier and was down 9.8 percent from April levels, the Japan Automobile Manufacturers Association said Tuesday.

Exports in May are thought to have risen about 5 percent from the year earlier 498,000, reflecting strong sales to developing countries, the association said. Export figures will be announced later this week, it added.

Domestic vehicle sales declined sharply in the month due to an increase in taxes last month, the association said. It had reported earlier that domestic sales in May fell 15.9 percent to 272,456 from a year earlier and were down a sharp 24.9 percent from the previous month.

**Gulf Canada to Build Beaufort Drilling Sites**

CALGARY, Alberta. — Gulf Canada Ltd. said Monday that it would spend 674 million Canadian dollars (\$559.3 million) to build and operate a year-round drilling system for the frigid Beaufort Sea, estimated to hold reserves of some 6 billion barrels of oil.

Gulf Canada, a 60-percent-owned subsidiary of the Gulf Oil Corp., said that it would build two offshore drilling platforms, two icebreakers and two supply vessels to begin a drilling program on 1.5 million acres of the sea in the summer of 1983.

Gulf Canada said that it was soliciting bids for construction of the units and would partially finance the program by a \$200 million debenture issue.

**Cycles Peugeot, Honda Deal Expected**

PARIS — Cycles Peugeot is expected to announce Wednesday an accord with Honda of Japan to produce motorcycle engines in France under license, industry sources said Tuesday.

A Peugeot spokesman said Cycles Peugeot will announce an outline agreement with "a foreign manufacturer" but declined to give details. The sources said the agreement would involve the construction by Peugeot of motorcycles with engines larger than 125 cubic centimeters.

**Eurobond Prices Ease, New Issues Announced**

LONDON — Prices on straight dollar Eurobonds eased slightly Tuesday as the volume of new business picked up. Dealers noted that operators were still cautious over the short-term trend of U.S. interest rates despite being encouraged by the Federal Reserve's decision to add funds to the system Monday night.

In addition to the new deals announced, two issues were priced Tuesday after managers increased the size of the offerings.

Lead managers had noted strong demand for both issues and dealers added that most of the recent crop of new issues had been received well by retail clients in the secondary market.

The World Bank bond was increased to \$500 million from the initially indicated \$400 million, lead manager Deutsche Bank said. It was sold at a price of 98 1/2 bearing a coupon of 14 1/2 percent to yield 14.82 percent but traded at 96 1/4-97 1/4.

Pacific Lighting Gas Supply's eight-year Eurobond was increased to \$65 million from the initially indicated \$50 million, lead manager Morgan Stanley said, and was sold at par bearing a coupon of 15 1/2 percent.

In the new-issue market, Ford Credit Overseas Finance NV is floating a \$150-million, four-year note issue at par bearing an annual coupon of 16 percent, lead manager Goldman Sachs said Tuesday. Guaranteed by Ford Motor Credit Co., the notes are first callable at par on July 1, 1984.

Natomas Overseas Finance NV, a unit of the U.S. oil company, is raising \$50 million through a five-year offering managed by Swiss Bank Corp. The indicated terms are a coupon of 15 1/2 percent and par pricing.

Trizec Corp., a North American property firm, is raising \$40 million through a five-year bullet issue managed by Merrill Lynch bearing a coupon of 16 percent. The issue price will be set June 30.

In the Deutsche mark sector, Renault Acceptance BV is seeking 150 million DM through a private placement of five-year bonds managed by Deutsche Bank bearing a coupon of 10 1/2 percent and priced at 99 1/4 to yield 10.82 percent.

The dollar, which had eased on European foreign exchange markets in the wake of the easing in short-term interest rates, recovered in later trading in New York. The dollar was sold down as the federal funds rate dropped during the morning, but positions were reversed following Federal Reserve action to drain reserves from the banking system, which put upward pressure on overnight money.

The dollar was quoted at 2.3565 DM at midday in New York against early lows around 2.3500 DM and against Monday's closing of 2.3525 DM.

Elsewhere, the coupon on the 15-billion Euroyen issue for New Zealand has been set at 8 1/2 percent. The 6 1/2-year Eurobond is being offered at par.

**Bonn's Program For Investment Is Under Way**

FRANKFURT — The first credits under West Germany's 6.3 billion-Dollar investment program have been awarded, a spokesman for KfW, the reconstruction loan corporation, said Tuesday.

KfW has raised 1.2 billion DM in tenable funds so far, all from overseas investors, and has given approval to about 1 billion DM of loan applications, he said.

About 2,000 West German companies have applied for the credits totaling more than 2 billion DM, he added. The program is designed to promote investments in energy saving, new industrial equipment and advanced technology.

The spokesman said the Saudi Arabian Monetary Agency has agreed to provide 400 million DM in funding for KfW, making it the largest investor in the new program. Other major investors have included Swiss and Luxembourg banks, he said.

The loan program, which carries an interest-rate subsidy from the Bonn government, was originally envisaged as a joint French-German project. But the government of Valéry Giscard d'Estaing pulled out of the project after his defeat in the French presidential election.

**Currency Rates**

Interbank exchange rates for June 23, 1981, excluding bank service charges.

	\$	DM	FF	IL	Yen	S.P.	S.F.	D.M.
Amsterdam	2.36	113.5	113.5	113.5	113.5	113.5	113.5	113.5
Brussels	2.35	113.5	113.5	113.5	113.5	113.5	113.5	113.5
London	1.74	113.5	113.5	113.5	113.5	113.5	113.5	113.5
Paris	1.74	113.5	113.5	113.5	113.5	113.5	113.5	113.5
New York	1.74	113.5	113.5	113.5	113.5	113.5	113.5	113.5
Stockholm	1.74	113.5	113.5	113.5	113.5	113.5	113.5	113.5
Zurich	1.74	113.5	113.5	113.5	113.5	113.5	113.5	113.5
ECU	1.74	113.5	113.5	113.5	113.5	113.5	113.5	113.5

**Ottawa Plan On Energy Is Expanded**

**Second Bill Outlined In Self-Sufficiency Bid**

By Henry Gieger

New York Times Service

OTTAWA — The Canadian government has taken another major step to carry out its controversial national energy program by introducing what it calls an Energy Security Act into the House of Commons.

In an apparent effort to show that the government is flexible, the legislation was presented Monday in draft form for discussion during the summer. After hearing comments from interested parties, the act will be put into final form for action in the fall.

The Energy Security Act is the second and last major bill designed to put into effect the government's energy program, which was announced last October. The first bill, dealing with exploration and development, was introduced earlier this year. The legislation introduced Monday deals with other major details of the program.

The energy program seeks to make Canada self-sufficient in energy by 1990, to increase the federal share of oil and gas revenue and to reduce control over oil and gas production by foreign companies, which now predominate, to no more than 50 percent.

Marc Lalonde, the minister of energy, indicated his determination to move ahead with what is known as "Canadianization" of the industry by rejecting criticism made last week before a House subcommittee in Washington by U.S. businessmen who complained of discrimination.

Mr. Lalonde said that "we are not breaking any international agreements." The minister added, however, that "it is true that the allowances" for oil and gas exploration "are higher for Canadian companies than for foreign ones."

70% Foreign Owned  
The minister said that "the United States would not tolerate the situation that we have known in Canada for 40 years," adding, "It would not accept 70 percent ownership of the oil and gas industry by foreign interests."

Parliament is now considering the first bill, covering development of oil and gas on federal lands, including offshore areas, the Northwest Territories and the Yukon.

The Canadian Association of Oil Well Drilling Contractors has called the first part of the program "a disaster" because no agreement has been reached with the province of Alberta, where 85 percent of Canada's oil and gas is produced, on revenue sharing from energy production. Newfoundland, where most of the offshore drilling sites are located, is also in disagreement with Ottawa on ownership and control of the wells.

The legislation introduced Monday provides for a new system of incentives to replace depletion allowances and is aimed, according to the Ministry of Energy, "at stimulating massive new investments, particularly by Canadians." A special incentives board is being organized and will be authorized to pay up to 80 percent of exploration expenses depending on the degree of Canadian ownership.

A Petroleum Monitoring Agency, which is already in existence, will have the power to certify the rate of Canadian ownership and control for companies that apply for incentives. It will require, for example, that there be 50 percent Canadian ownership for any company that seeks a production license on federal lands.

The agency will also be empowered to obtain, on a "regular basis," information on the sources and uses of funds by any company that has more than 10 million Canadian dollars (\$8.3 million) in oil and gas revenue or 5 million Canadian dollars in assets.

**Credit Being Planned For Egypt's Defense**

ZURICH — Foreign banks in Switzerland are putting together a loan of 600 million Swiss francs (\$291.5 million) for Egypt to buy an air defense system, banking sources here said Tuesday.

The system, which would be installed on Egypt's border with Libya, is to be supplied by Contraves Italiana, an Italian subsidiary of the Swiss arms and civil engineering company, Oerlikon-Bührle. The credit, larger than those usually seen on the Swiss capital market, has not yet been negotiated in all its details, because the contract for the equipment purchase is not final, the sources said.

**Foreign Exchange Problems?**

Having foreign exchange problems that cannot be handled through normal banking channels? Contact Desk-Perera, Box D1776, Herald Tribune, 92521 Neuilly Cedex, France.

**Desk-Perera**

THE WORLD'S MONEY EXPERTS

**French Executives Shrug Off Socialist Win**

By Paul Lewis

New York Times Service

PARIS — The French business community welcomed Sunday's sweeping Socialist victory in the parliamentary elections with a Gallic shrug of resignation.

"We knew what was coming and it has come," said a spokesman at St. Gobain-Pont-a-Mousson, the diversified French engineering and electronics group that figures prominently on the Socialist Party's list of nationalization targets.

Indeed, France's industrial leaders have said little about the Socialist economic program. If it had not been for anxious questions at shareholder meetings in May and June, most of the leaders would have made no public comment.

Privately, French businessmen offer three reasons for their low profile.

Limited Effort Seen  
First, many believe that President Mitterrand wants to wriggle out of a lot of his economic promises, realizing their dangers, and they do not want to make the task more difficult by attacking him openly.

One widely discussed scenario foresees the Socialists nationalizing the troubled steel company, the armament makers that depend on government contracts anyway, and perhaps a big private bank. But no more. At the same time, business expects the government to tone down plans for higher social

benefits, arguing they would make business uncompetitive by increasing industrial costs.

A second reason is that much of private industry and banking is practically nationalized anyway. Big companies are usually run by former senior civil servants who have "parachuted" into the private sector, but who keep close personal ties with the administration.

Major investment decisions, takeovers and restructuring plans are all quietly cleared with the government under a system that the French socialist Christian Stoffes describes as "informal mutual persuasion."

The third reason is that much of industry has traditionally liked protectionism, government direction and a weak franc. And that is what the Socialists seem to be offering.

Most businessmen have contented themselves with raising technical objections to the Socialist proposals. For Roger Martin, honorary president of St. Gobain, the ownership of a company is a "minor" matter, provided it is allowed to obey the disciplines of the marketplace.

Pierre Moussa, head of the Banque de Paris et des Pays-Bas, feels that being nationalized will complicate relations with foreign private banks and give foreign banks in France, which the Left plans to spare, an unfair advantage.

Many executives simply argue that nationalization is unnecessary, because they are already doing the best they can. "How could

the state hope to do better?" asks Philippe Thomas, head of Pechiney, the French aluminum giant targeted for nationalization.

**Reflation Plan**

So far, France's new leaders have moved cautiously. Increases in public expenditure are being more or less covered by new taxation, leaving France's budget deficit this year as one of the smallest in Western Europe, and the minimum wage was increased by less than pledged.

In addition, the promised reduction in the workweek to 35 hours, and the addition of a fifth week of paid vacation are to be "negotiated" between unions and employers. The government still says, however, that it is committed to plans to reflate the economy next year by raising real disposable income by some 3 percent.

Such a plan to stimulate the economy, according to a study by Chase Econometrics, is likely to result in growth of 1 or 2 percent this year and more than 4 percent next year, raising inflation to more than 15 percent a year and increasing the trade deficit.

The study says that although 300,000 new jobs might be created, unemployment would only be held at its present 1.7 million workers because of the growth of the labor force.

Eventually, inflation and the widening trade gap would bring about another recession, as happened in Sweden when it tried to spend its way out of the 1975 recession. Chase Econometrics says.

**U.S. Prices Rose 0.7% During May**

Increase Over Year Dips to Single Digits

From Agency Dispatches

WASHINGTON — The U.S. inflation rate climbed 0.7 percent in May, or an annual rate of 8.4 percent — completing the first three-month string of single-digit increases since the spring of 1978, the Labor Department said Tuesday.

The latest Consumer Price Index figures show the inflation rate for the past 12 months stood at 9.8 percent. The last time the inflation rate was at that rate for a year was in February, 1979.

The May increase compares with 0.4 percent in April and 0.6 percent in March.

The department also said real spendable earnings — after taxes and after adjusting for inflation — dropped 0.4 percent in May for an average married wage earner with three dependents.

Real spendable earnings were down 2 percent from May, 1980. The major influence forcing prices up in May was the increasing cost of financing and purchasing a home, which accounted for four-fifths of the increase.

"Double-digit inflation as a phenomenon is behind us," Murray Weidenbaum, chairman of the Council of Economic Advisers, said Monday before the figures were released.

The Reagan administration is predicting a 10.2 percent inflation rate for the year.

Donald Ratajczak, director of the Economic Forecasting Project at Georgia State University, is predicting consumer prices will rise 8.5 percent.

The Consumer Price Index for May was 269.0, which means it cost \$269.00 in 1981 dollars to buy the same amount of goods retail that \$100 purchased 14 years ago.

Food prices went down 0.2 percent in May and grocery store prices fell even more, by 0.5 percent.

**Denmark Reports Deficit**

COPENHAGEN — Denmark's trade deficit widened in May to 1.38 billion kroner (\$185 million) from a deficit of 1.28 billion kroner in April, the Statistics Bureau said Tuesday. The deficit in the first five months was 5.32 billion kroner, down from 7.56 billion kroner in the year-ago period.

**Dow Climbs Over 1,000 On NYSE**

From Agency Dispatches

NEW YORK — The Dow Jones industrial average broke through the 1,000 level Tuesday as investors turned optimistic following a drop in short-term interest rates. Trading was moderately active.

The Dow average, which was down a point at the outset following Monday's 1.99-point loss, closed up 12.46 at 1,006.66.

Advances led declines, 898-507, among the 1,908 issues traded on the New York exchange. The NYSE volume was 51.84 million shares, up sharply from the 41.97 million traded Monday.

Prices were mixed in moderate trading of American Stock Exchange issues. Analysts said investors were encouraged that federal funds rates banks charge on overnight loans were down significantly from Monday, even though the Federal Reserve stepped in to prevent a further slide.

Fed funds fell sharply in early trading Tuesday to 16 1/2 percent from 17 1/2 at the opening. Although the decline was greater than anticipated, dealers were surprised by the Fed's move to drain reserves with two-day reverse repurchase agreements because it had added reserves both Monday and Friday.

Money market analysts noted that although the Fed's action to drain reserves in the same statement week in which it added was not unprecedented, it was highly unusual.

The Fed's allowing the federal funds rate to rise thwarted a move by banks to lower their prime lending rate, which now stands at 20 percent. Analysts are hopeful the prime will fall again.

Wall Street also was encouraged that Chase Manhattan, Marine Midland Bankers Trust and Chemical Bank cut the rate they charge brokers for loans a full point. This rate has been rising and falling almost daily for more than a week.

Some institutions are adjusting their portfolios for the third quarter, a trend making it difficult to get a clear picture of the market's direction.

In corporate news, the board of Canada Cement Lafarge Tuesday authorized an offer of \$45 a share for General Portland. Under the proposal, General Portland would be merged with a Canada Cement Lafarge subsidiary. Canada Cement said the deal is valued at \$315 million.

On the NYSE floor, Digital Equipment won support. A U.S. circuit court of appeals in Boston overturned a ruling against Digital that had charged the company with committing a technical fraud in a patent application.

Schering-Plough was lower. The company, in a revised forecast, said it expected to report lower earnings for the current fiscal year.

**Seagram Sets Purchase of Conoco Stock**

The Associated Press

STAMFORD, Conn. — Seagram Co., the large Canadian distiller, intends to buy "a number of common shares of Conoco Inc., possibly as much as 25 percent of the Stamford-based oil company, Conoco said Tuesday.

Conoco spokesman Vince Robertello said the company received written notice Monday of the planned stock purchase from Joseph E. Seagram & Sons Inc., a New York-based subsidiary of Seagram.

Seagram's notice said it "intends, depending on future developments, to acquire a number of Conoco common shares, although it did not specify how many. A Seagram spokesman said his company already owns some Conoco stock, but he declined to say how many shares.

Federal law requires notification to the Federal Trade Commission and the Department of Justice of plans to buy within 30 days at least 10 percent of a company's common stock.

**\$2 Billion Offer**

Just last week Conoco disclosed that its directors had rejected a proposal by "a major foreign corporation" to buy about one quarter

of its stock for as much as \$2 billion. Conoco on Tuesday disclosed that Seagram had made that offer.

Under the earlier offer, Seagram had proposed to either purchase from Conoco directly 15.9 million shares at \$75 a share and buy an additional 9.6 million shares on the open market, or to purchase from Conoco directly 28.6 million shares at \$70 a share. Conoco said it rejected the offer after "extensive consideration." Conoco's

**Japan Panel Urges Spending Cutback**

Reuters

TOKYO — An official commission for administrative reform Tuesday proposed extensive Japanese public spending cuts to reduce the budget deficit and to streamline the government.

Commission Chairman Toshio Doko said the proposals, to be officially presented to the Cabinet in mid-July, are designed to enable the government to reduce national bond flotation in fiscal 1982, which starts in April, by 2 trillion yen (\$9 billion) from about 12 trillion this year without increasing taxes.

**Genossenschaftliche Zentralbank Aktiengesellschaft**  
Vienna

**U.S. \$60,000,000 Floating Rate Subordinated Notes due 1992**

All these securities having been sold, this announcement appears as a matter of record only.

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Genossenschaftliche Zentralbank AG	OKORANK	Rabobank Nederland
American Express Bank International Group	A. E. Ames & Co. Limited	Amro International Limited
Banco del Comercio	Banco Nacional del Lavoro	Banco di Roma
Banco del Giordania	Banco di Sicilia	Banco Urquijo Hispano Americano
Banco del Golfo	Banco di Napoli	Banco di Sicilia
Banco del Mar del Plata	Banco di Sicilia	Banco di Sicilia
Banco del Uruguay	Banco di Sicilia	Banco di Sicilia
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Banco de Nicaragua	Banco di Sicilia	Banco di Sicilia
Banco de Paraiso	Banco di Sicilia</	

# NYSE Nationwide Trading Closing Prices June 23

Tables include the nationwide prices up to the closing on Wall Street.

12 Month Stock High Low Chg. %	12 Month Stock High Low Chg. %	12 Month Stock High Low Chg. %	12 Month Stock High Low Chg. %
30 Sunstar 12.4 12.4 5%	31 Sunstar 12.4 12.4 5%	32 Sunstar 12.4 12.4 5%	33 Sunstar 12.4 12.4 5%

# Portugal Lowers Economic Sights 4 Producers To Maintain Oil Prices

by Richard Wallis

**LISBON** — Six months after coming to power predicting an economic miracle, the Portuguese government has scaled down its economic targets for the year, putting the blame mostly on the world recession.

A revised 1981 government plan unveiled this month anticipates a record balance of payments deficit this year and sharply lower growth. It is even gloomier than the government's most pessimistic expectations outlined in a preliminary forecast last March.

The government, faced with a barrage of questions about what has gone wrong, replies that a strong dollar is pushing up the cost of Portugal's food and oil imports and that the world recession means more and more countries are closing their doors to Portugal's traditional exports, such as textiles.

It also cites a severe drought earlier this year, which meant Portugal had to import \$400 million worth of extra energy to compensate for cuts in its hydroelectric power production.

But the effect on agriculture has not been as bad as originally expected. Although the harvest will be down on last year, it will be better than that of 1979, according to latest official forecasts.

Finance Minister Joao Morais Leitao told a ministerial conference of the Organization for Economic Cooperation and Development in Paris earlier this month the strong dollar was making it extremely difficult for his country to meet its balance of payments and inflation targets.

The latest forecast for the 1981 balance of payments is a record \$1.7 billion deficit, wider than last year's \$1.3 billion deficit. The new 1981 payments deficit forecast is \$500 million above the original government target, whereas the 1980 figure was double that predicted by the previous government. In 1979, the payments deficit was a mere \$34 million.

Anibal Cavaco Silva, former finance minister and now head of the National Planning Council, an advisory body to the government, believes the steep rise in the deficit last year reflected a sharp increase in private and public investment that led to an 11-percent rise in imports.

One target the government has not altered this year is its goal of keeping the rise in inflation to 16 percent after the 16.6 percent level last year and the 24.2-percent level of 1979.

It is to meet this target in spite of falling exports that the domestic growth rate is being cut to 2.9 percent this year. In 1980, Portugal recorded a growth rate of 5.8 percent, the highest of any OECD country, according to latest central bank estimates.

Last March the government forecast gross domestic product would grow this year by a minimum of 3.5 percent and a maximum of 4.8 percent, depending on whether the international outlook was favorable or not for Portugal.

A major concern to the government is that any greater rise in inflation, and particularly production costs, would price Portuguese exports out of world markets. In that case the only way to compensate would be to devalue the escudo. Finance Ministry experts said.

Portuguese exports grew 9 percent last year but are now only expected to rise 4.8 percent in 1981. The government's original target, based on an optimistic scenario, was for 7-percent growth in both exports and imports this year.

To keep Portuguese goods competitive abroad the government is trying to secure a 16-percent ceiling on wage rises this year, but the finance minister has complained that wage settlements are averaging nearly 21 percent in spite of indirect controls by the government.

But the government insists it is sticking to the goal of 5-percent annual growth set in its 1981-84 economic plan, although it says it would be absurd to reflect the economy at an artificially high rate in a year when external factors are so heavily weighed against Portugal.

# Bank of England to Abolish Reserve Law

By George Short

**LONDON** — The Bank of England Tuesday announced what it called a further step in the evolution of tactics aimed at controlling the growth of the money supply, which the government sees as the key to curbing inflation.

The central bank published a draft plan for improving its techniques of controlling the money supply and set Aug. 20 as the provisional date for bringing the system into force.

The moves will abolish the requirement for banks to keep a certain ratio of reserves to assets, which was aimed at making sure that banks did not overextend themselves. This will be replaced by a more flexible system of controls, including spot checks, the bank said.

Controlling the money supply is a central feature of the monetarist anti-inflation policies being followed by Prime Minister Margaret Thatcher's government.

Mrs. Thatcher has come under criticism from experts who have said her government has not controlled the money supply rigorously enough, despite public spending cuts and high interest rates. Assessments at the end of last year showed that money-supply growth had been more than 20 percent, twice the targeted goal.

Financial experts see the new measures as part of a gradual move towards abolishing the Bank of England's minimum lending rate, which sets the base for all domestic rates.

Banking sources said it could lead to an era of more market-related interest rates, but they noted that the Bank of England has said it wants to avoid the volatility of interest rates that has become the hallmark of open money-market operations in the United States.

The volatility of U.S. interest rates, resulting from moves by the Federal Reserve to tighten its short-term control of the money supply, has brought criticism from Europeans, who complain that high rates keep their currencies under pressure.

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### Toronto Stocks

Closing Prices, June 22, 1981

High	Low	Chg.	%
3000 Alcan	31.25	0.25	0.8%
3000 Agri	1.12	0.01	0.9%
3000 Amstar	1.12	0.01	0.9%

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### Montreal Stocks

Closing Prices, June 22, 1981

High	Low	Chg.	%
3000 Bank	1.12	0.01	0.9%
3000 Bell	1.12	0.01	0.9%
3000 Bim	1.12	0.01	0.9%

### Canadian Indexes

Index	June 23, 1981	Previous
Montreal	422.80	422.40
Toronto	2351.80	2338.20

Montreal: Stock Exchange Industriels Index.  
Toronto: TSE 300 Index.

### European Gold Markets

Location	Price	Change
London	445.00	+4.00
Zurich	445.00	+4.00
Frankfurt	445.00	+4.00

### Gold Options (prices in \$/oz.)

Month	Aug.	Nov.	Option for Feb. 1981
400	200.00-220.00	220.00-250.00	220.00
500	200.00-220.00	220.00-250.00	220.00
600	200.00-220.00	220.00-250.00	220.00

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### Company Reports

Revenue and profits, in millions, are in local currencies unless otherwise indicated.

Company	1981	1980
General Tire & Rubber	458.20	529.54
Revenue	22.67	4.89
Profits	0.90	0.28
Per Share	1.91	0.32
Levi Strauss	1227.27	1043.17
Revenue	24.79	4.57
Profits	1.02	0.28
Per Share	1.75	0.42

### Eurocurrency Interest Rates

Term	Rate
1M	18 1/2 - 19 1/2
3M	18 1/2 - 19 1/2
6M	18 1/2 - 19 1/2
9M	18 1/2 - 19 1/2
1Y	18 1/2 - 19 1/2

### European Stock Markets

(Closing prices in local currencies)

Market	Index	Change
Amsterdam	195.00	+1.00
London	1120.00	+10.00
Paris	1200.00	+10.00

### European Stock Markets (continued)

Company	Price	Change
ACF Holding	84.76	84.00
Alcatel	230.00	230.00
Amstel	27.00	27.00

### Frankfurt

Company	Price	Change
A.E.G.	467.00	467.00
Alcatel	230.00	230.00
Bayer	140.00	140.00

### Zurich

Company	Price	Change
Alcatel	1120.00	1120.00
Bayer	140.00	140.00
Bombardier	120.00	120.00

AMEX Nationwide Trading Closing Prices June 23

Tables include the nationwide prices up to the closing on Wall Street.

U.S. COMMODITY PRICES

AMEX Nationwide Trading Closing Prices June 23. A large table listing various stocks and their closing prices, organized by industry and company name.

Chicago Futures. Table listing futures contracts for various commodities like wheat, corn, soybeans, and cotton, including their prices and market status.

Market Summary NYSE Most Active. Table summarizing the New York Stock Exchange's most active stocks, including volume and price changes.

Dow Jones Averages. Table showing the performance of major market indices like the Dow Jones Industrial Average, S&P 500, and others.

Standard & Poors NYSE Index. Table providing detailed data for the Standard & Poors index and the NYSE index, including volume and price movements.

AMEX Index. Table showing the performance of the American Market Exchange (AMEX) index and its constituent stocks.

Tokyo Exchange. Table listing the closing prices of various Japanese stocks traded on the Tokyo Exchange.

Paris Commodities. Table listing the prices of various commodities traded in Paris, such as metals and agricultural products.

London Metals Market. Table showing the prices of various metals and minerals traded in the London market.

London Commodities. Table listing the prices of various commodities traded in the London market, including grains and oils.

SOYBEAN OIL. Table listing prices for soybean oil and related products.

Market Summary NYSE Most Active. Table summarizing the New York Stock Exchange's most active stocks, including volume and price changes.

Dow Jones Averages. Table showing the performance of major market indices like the Dow Jones Industrial Average, S&P 500, and others.

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International Monetary Market. Table listing prices for various international currencies and exchange rates.

Cash Prices. Table listing cash prices for various commodities and financial instruments.

Commodity Indexes. Table showing the performance of various commodity price indexes.

Floating Rate Notes. Table listing prices for floating rate notes and other debt securities.

Non Banks. Table listing prices for various non-bank financial products and services.

Dividends. Table listing the dividend payments for various companies.

Selected Over-the-Counter. Table listing prices for selected over-the-counter stocks and securities.

NEW YORK (API). Table listing prices for various commodities and financial instruments traded in New York.

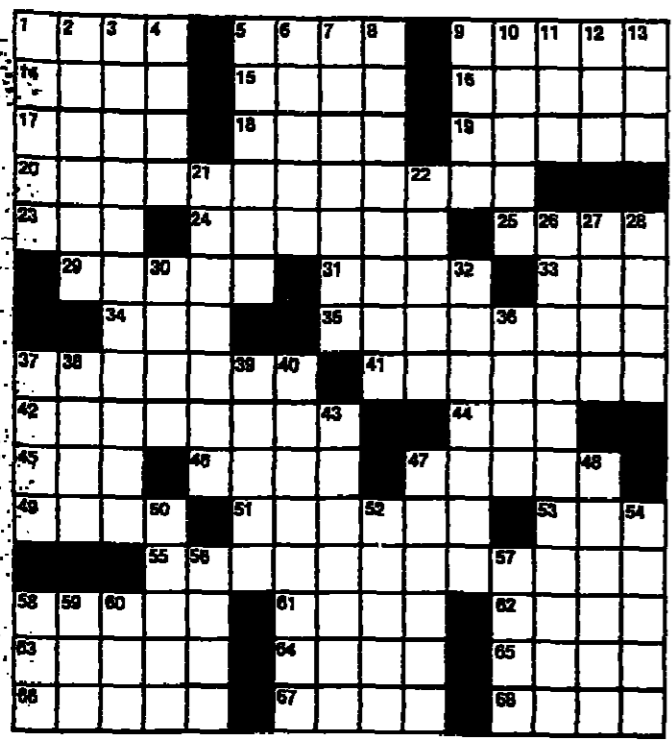
STOCK SPLIT. Table listing information about stock splits for various companies.

Tuesday's New Highs and Lows. A table and text section highlighting the highest and lowest prices for various stocks on Tuesday.

The "International Executive Opportunities" appears Tuesdays, Thursdays & Saturdays. A promotional advertisement for an executive search firm.

CROSSWORD

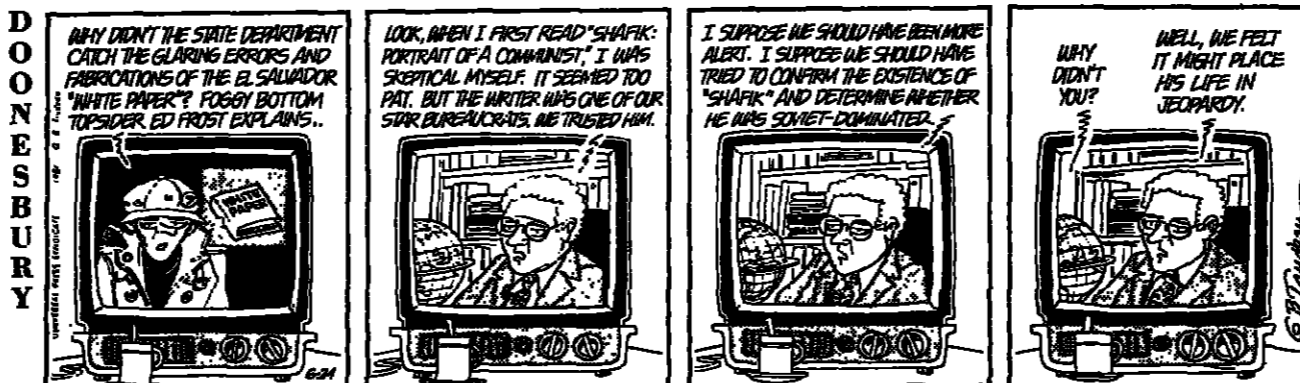
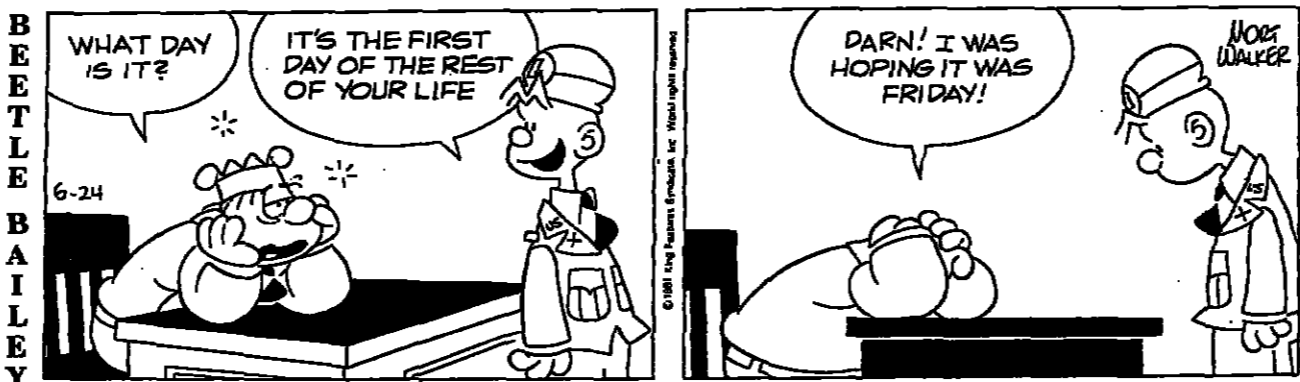
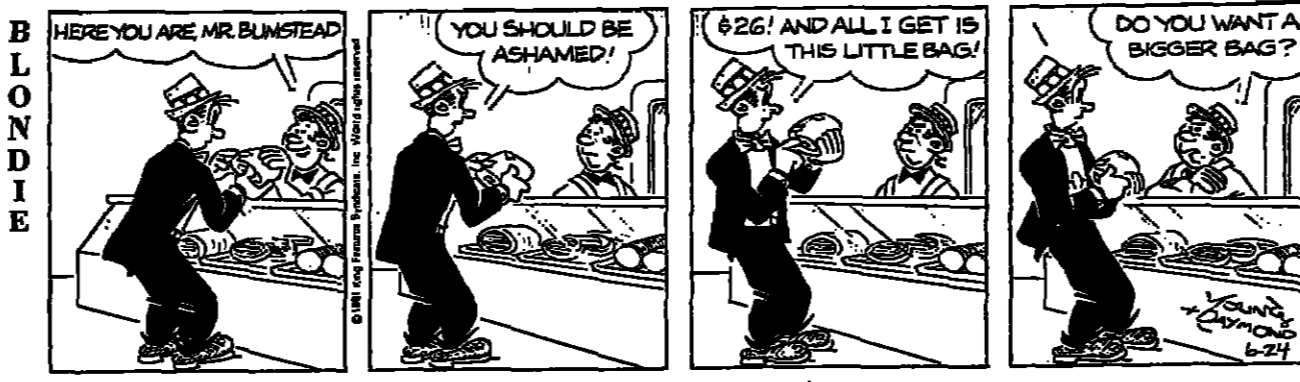
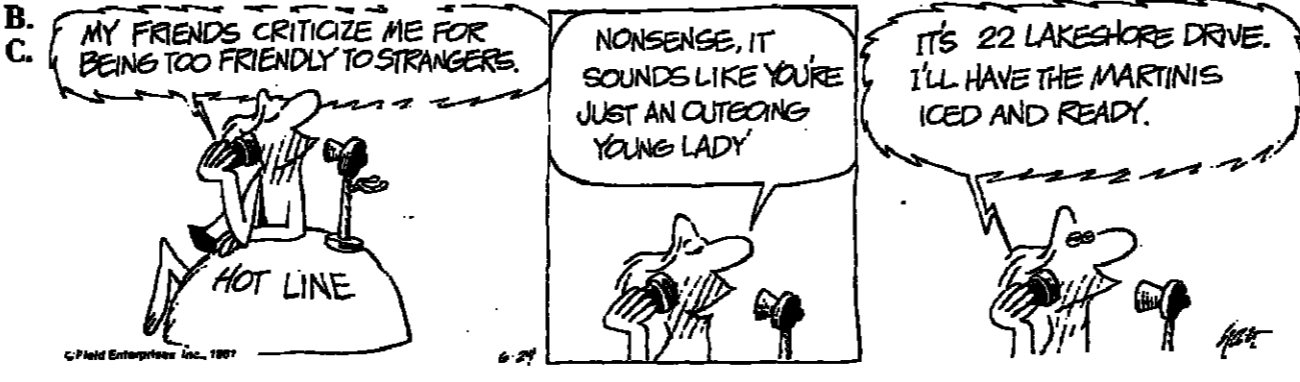
By Eugene T. Maleska



- ACROSS: 1 Lone Ranger's group; 5 Finnish; 9 Bernhard; 14 First shepherd; 15 Gathering clouds, e.g.; 16 Swiftly; 17 Division of mankind; 18 Races the motor; 19 He shows surprise; 20 "The..." painting by 66; 23 Haw's partner; 24 Cruise port; 25 Where the poetic harp hangs mute; 28 Madras, e.g.; 31 Gold medalist Heiden; 32 When to break a bad habit; 34 Mar.'s follower; 35 Kinsman; 37 Pirate from Barbary; 41 Leaves high and dry; 42 Mathematics and biology; 44 "The End Is..." Yet; 45 Native: Suffix; 46 Teacher's concoction; 47 Hem in; 49 Back talk; 51 Jacket; 53 Monogram of Emerson or Ellison; 55 Type of fiddler crab; 58 Subject; 61 Eden's... of life; 62 Big burden for a bandsman; 63 Ekberg; 64 Loyal to; 65 Cut and splice; 66 Impressionist; 67 Melos a fluff; 68 "Take your leader"; 13 Part of H.R.E., at times; 21 Freshman, for one; 22 Tury's concern; 23 Forest by Swinburne; 27 Crucifix; 28 Wheat whiskers; 29 Area in St. Peter's; 32 Heavyweight champ; 1933-34; 36 Tourist center in the Southwest; 37 Army V.I.P.'s; 38 Prefix for chord or meter; 39 Bakery employees; 40 Bed down in a new home; 43 Con man's accomplice; 47 Palms with orange fruits; 48 Cheap, in slang; 50 "God shall...": Acts 23:3; 52 Hawaiian chief justice; 1900; 54 A star of Thales; 56 Quick as...; 57 Bit of information; 58 Flat cap; 59 "High-Windy Hill"; 60 Marker on the

WEATHER

Table with columns for location, high, low, and weather conditions. Locations include ALGARVE, ALGIERS, AMSTERDAM, ANKARA, ATHENS, AUCKLAND, BANGKOK, BEIRUT, BELGRADE, BERLIN, BOSTON, BRUSSELS, RICHARDET, BUDAPEST, BUENOS AIRES, CASABLANCA, CHICAGO, COPENHAGEN, COSTA RICA, DAMASCUS, DUBLIN, EDINBURGH, FLORENCE, FRANKFURT, GENEVA, HAMBURG, HONG KONG, HOUSTON, ISYANBUL, JERUSALEM, LAS PALMAS, LIMA, LISBON, LONDON, LOS ANGELES.



JUMBLE: A word game where letters are scrambled. Includes a cartoon of a man and a woman. Text: 'WOULD YOU SIT DOWN TO HAVE A DRINK WHEN YOU HEAR THIS?' 'I LIKE YOUR REGULAR OLD FACE BETTER.'

BOOKS

THE MAPMAKERS

By John Noble Wilford. Illustrated. 414 pp. \$20. Knopf, 201 E. 52d St., New York 10022.

Reviewed by Christopher Lehmann-Haupt

DESPITE everything, we were all a little amazed. First John H. Glenn, when he looked down and saw "the whole state of Florida" near the end of his Earth orbit in 1962; then subsequent astronauts; then the rest of us when we saw the first photography from space — we were all a little amazed. The Earth looked just like a map; they had gotten it right! And though even the dumbest among us knew the approximate answer for why we stopped to think about it, there was part of all of us that exclaimed: How did they know? How on earth did they know? That is the question John Noble Wilford tries to answer comprehensively in "The Mapmakers." How did they know? The answer, of course, is basically triangulation, or the surveying technique of establishing the relative position of the apex of a triangle by measuring the length of the baseline and the angles to the apex. But there was more to it than that. It was the job of establishing such first principles as the notion of comprehending and measuring the universe and representing it on a map. As usual, the Greeks got good at it first, but the Greeks worked it out for Western purposes. A second-century (A.D.) Egyptian named Claudius Ptolemy helped too, even if he did think the Earth was the center of the universe. Also useful was a 16th-century German named Gerardus Mercator, who squared the circle by figuring out a way to project the spherical world onto a flat surface. Then there was the donkeywork — exploring, discovering and surveying, endlessly surveying. Men died surveying, and also got mosquito-bitten. The rest of the story is pretty much technology — progressing from a wheel whose revolutions you counted so as to measure distance, to a laser beam bounced off distant mirrors at calculable intervals of time. That's the story of mapmaking in a nutshell. Wilford, who is science correspondent for The New York Times, where he has covered all the major space ex-

Rome Weighing Plan to Excavate Forum Complex

ROME — A proposal to excavate sections of five Roman imperial forums and join them into one archaeological park is being considered jointly by the city of Rome and the Italian government. "This project would allow the public to see the whole Roman forum complex as it was before the Middle Ages, to appreciate its unique continuity," said Giulio Carlo Argan, the 72-year-old art historian and former mayor of Rome. If adopted, the project would require the partial closure of one of Rome's busiest streets, the six-lane Via dei Fori Imperiali, built by Mussolini in 1932. Underneath, archaeologists hope to unearth gardens, malls and gates joining the Roman forum with the imperial forums of Caesar, Trajan, Augustus and Nerva and the Forum of Peace. The proposed excavation, which would add about 7 1/2 acres to the 150-acre forum complex, was conceived by the superintendent of archaeological monuments, Adriano La Regina. "This project will allow us to change the present situation where many of Rome's ancient and fragile monuments border traffic-congested avenues, causing damaging pollution," he said. The Roman forum, constructed in a marshy valley between two of Rome's seven hills, dates from the 3rd century B.C. Until just before the Christian era it was the political, social and cultural heart of the city, where Romans gathered to celebrate religious festivals, to watch political executions, or barter with merchants.

Table with columns for title, author, and page number. Includes titles like 'NOBLE HOUSE', 'GORKY PARK', 'THE EMPEROR OF DUNE', etc.

BRIDGE

By Alan Truscott. Bridge puzzle involving a diamond suit. Includes a diagram of a hand and a list of cards. Text: 'SOUTH bid strongly in the face of diamond bids by her opponents, and eventually continued to five clubs when her partner contributed a bold raise in that suit. West led a diamond, and since the heart finesse was due to win, the defense could not hope to take more than a trick in each black suit. But a funny thing happened when South ruffed the opening lead and played the trump ace: West dropped the club queen.' Includes a list of cards for West, East, and South.



Observer

The Zucchini Glut

By Russell Baker

NEW YORK — After hearing that a Japanese scientist had bred a square watermelon...



Baker

"Galinat," I said, "what is the most urgent problem in vegetables today?" "Zucchini, of course," he said.

I outlined a solution. If he bred a zucchini that looked like a tomato, it would be totally consumed by tomato worms before it could ripen.

entist who produced a square tomato and had been frittering away his time trying to breed a square tomato worm.

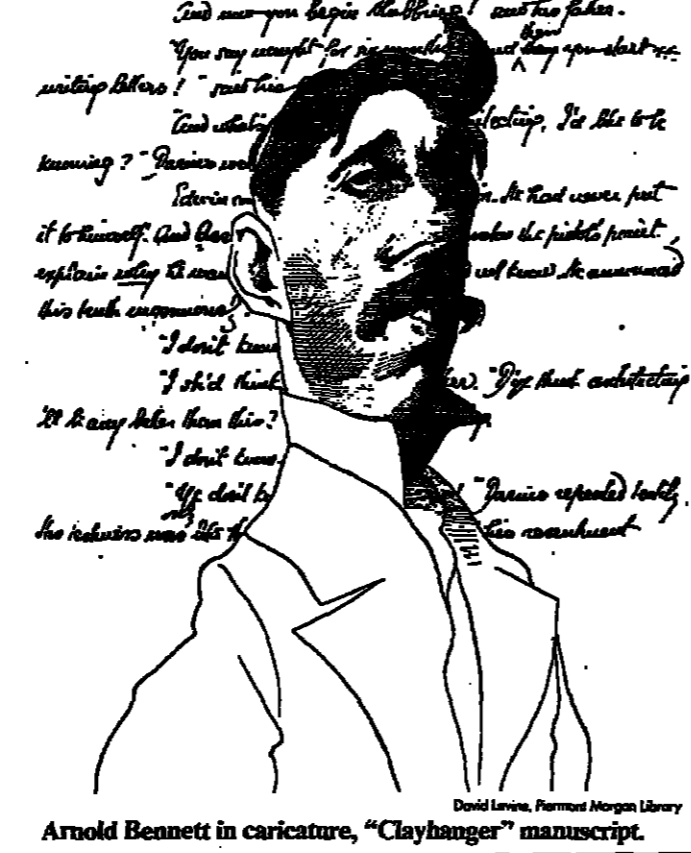
I suggested that he take a new tack with the zucchini problem and breed a zucchini that tasted like honeydew melon.

Shh! I must stop typing now. My friend Lydon is outside with his truck. Yes, just as I suspected, Lydon is unloading zucchini.

Some Giants of Literature Seen Through Two Prisms

By Hilton Kramer

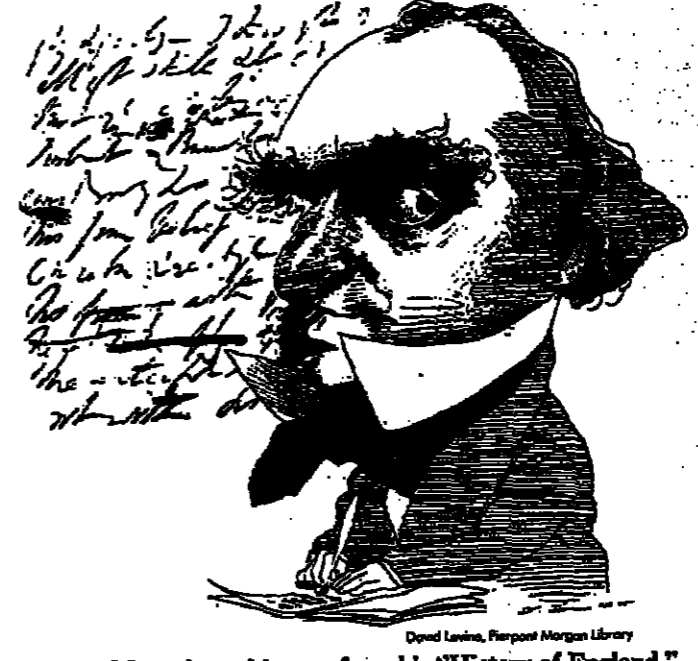
NEW YORK — The Pierpont Morgan Library has fetched up from its vast storehouse of autograph manuscript materials an astonishing survey called "British Literary Manuscripts, 1800-1914."



Arnold Bennett in caricature, "Clayhanger" manuscript.

caricatures of these same writers. Among them are some of the most accomplished — as well as some of the funniest — caricatures this very prolific artist has produced in recent years.

There are certain manuscripts, moreover, that are so revealing of certain aspects of the personalities of their authors that they are virtually a form of self-portraiture.



Levine's Macaulay, with page from his "History of England."

Levine makes him out to be. But without some hint of the aesthetic in Bennett, without some sense of the serious literary artist, no account of the man is complete.

PEOPLE:

Buyer Pays \$5,000 For 'Big Three' Ruble

Christopher Faye of Mankato, Minn., paid \$5,000 for a 10-ruble note signed by Winston Churchill, Franklin D. Roosevelt and Joseph Stalin at the Sotheby Parkes auction of Printed and Manuscript Americana in New York.

Former U.S. first lady Bess Truman, 96, has returned home. Mrs. Truman was hospitalized in Independence, Mo., on May 6 when she broke her right hip in a fall while attempting to get out of bed.

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